

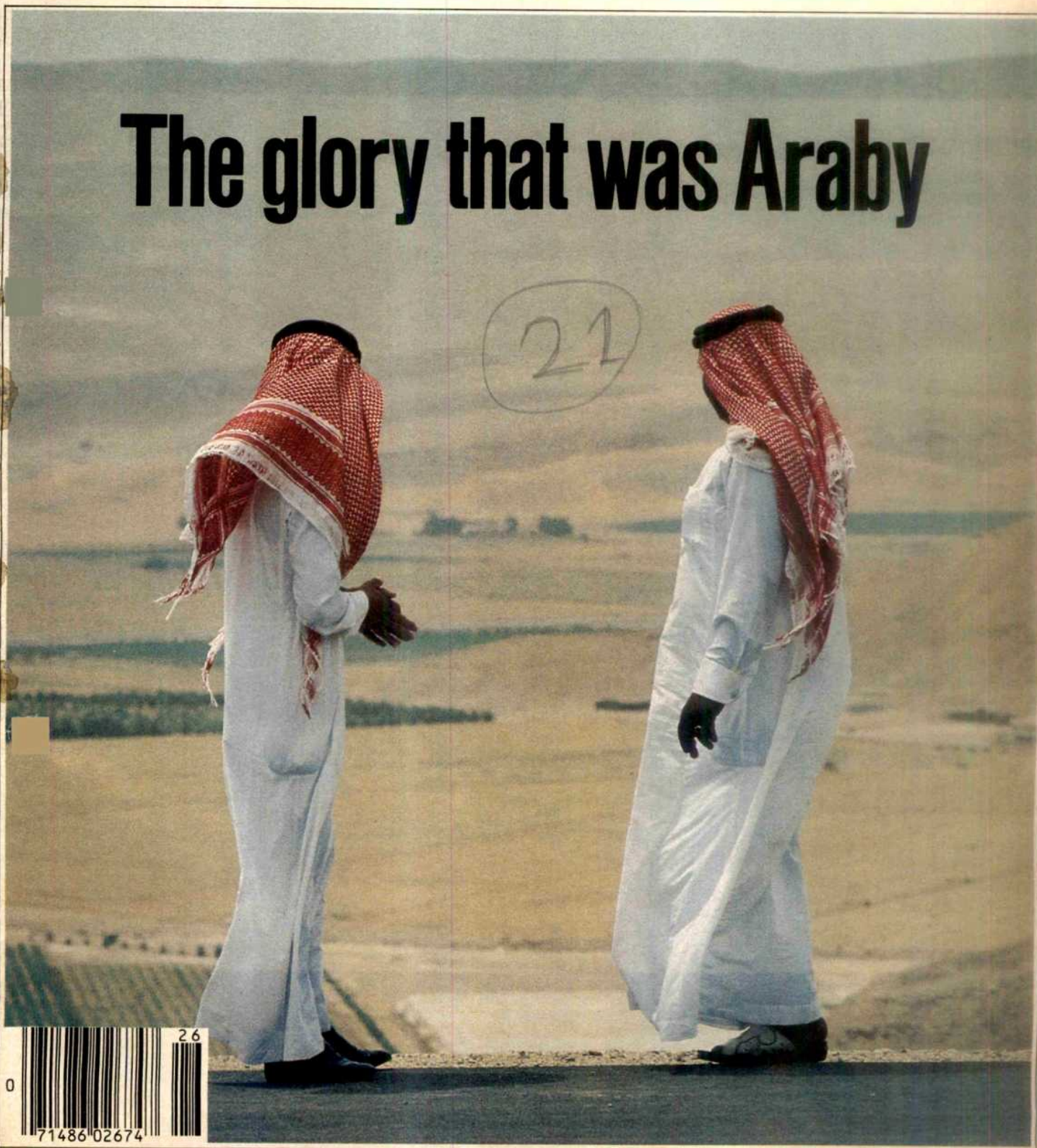
The Economist

27 June-3 July 1987 \$5.00/HK\$18/A\$3.70/India Rs28/Y750/M\$6.00/Won 2,500
NZ\$4.95/Pakistan Rs32/NT\$10/Bah 60/TK 60/Indonesia Rp3,000/Philippines Peso 34

FELDSTEIN ON DEBT
WHERE GANDHI GOES NEXT
EUROPE'S PRIVATISATIONS
NEW THATCHER LAWS

The glory that was Araby

21





EAP—Experimental Aircraft Programme demonstrator, Britain's most advanced fighter aircraft, that will prove much of the technology for the new European Fighter Aircraft—EFA.

G124079

CUK-405785-21-G124079

High Performance

British Aerospace's new Experimental Aircraft – EAP – exploits technologies at the frontiers of knowledge to achieve levels of aerodynamic agility and pilot control not previously considered possible.

EAP will prove much of the technology for Europe's new Fighter Aircraft – EFA. Some 800 EFAs are required for the defence of Europe in the 1990s and beyond, demanding a work commitment from British Aerospace and its European partners well into the 21st century.

These projects require experience, skill, and vision – the very qualities that helped British Aerospace create supersonic CONCORDE, V/STOL HARRIER, RAPIER low level air defence system, GIOTTO satellite which intercepted Halley's Comet, 146 the world's quietest jetliner and the exciting reusable spaceplane – HOTOL.

British Aerospace today designs and builds more types of aircraft, defence weapons and space systems than any other company in the world.

EAP is the latest in this long and distinguished line of products designed and developed to explore the best of today's technology for the needs of tomorrow.

BRITISH AEROSPACE

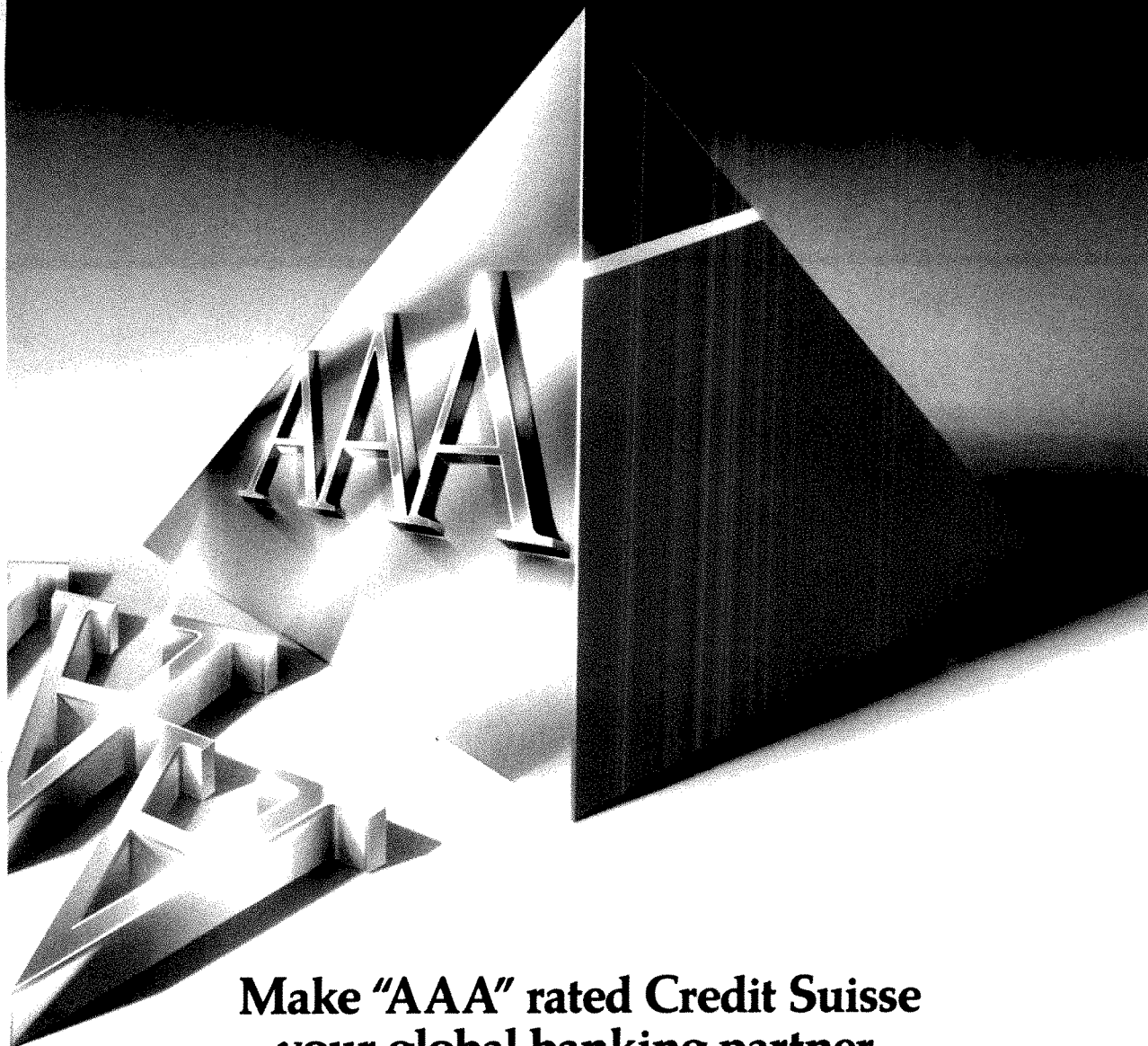
*...up where
we belong*



British Aerospace plc, 11 Strand, London.

INDIA BRITISH
200, LINDSAY STREET

Come to the top.



Make "AAA" rated Credit Suisse your global banking partner.

Your Credit Suisse international banking partner can bring you a unique combination of resources, contacts and know-how all backed by a 130-year tradition of commitment to excellence.

At Credit Suisse, you'll benefit from the global resources of our entire group of companies, including Credit Suisse First

Boston and a network of over 70 banking offices on all five continents.

In fact, Credit Suisse is one of the world's most highly capitalized banks, with "AAA" long-term debt rating, a distinction assigned to only a handful of banks worldwide. As well as an A1+/P1 short-term rating.

Whatever your global banking needs may be, at Credit Suisse you'll find the reliability and creativity you'd expect from an acknowledged world leader in financial services.

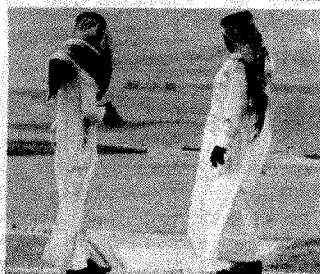
Credit Suisse. We do more to keep you at the top.



CREDIT SUISSE
CS

Zurich (Head Office) · Abu Dhabi · Atlanta · Beijing · Beirut · Bogotá · Buenos Aires · Cairo · Calgary · Caracas · Chicago · Frankfurt · Fürth · Gibraltar · Guernsey · Hong Kong · Houston · Johannesburg · London · Los Angeles · Luxembourg · Manama (Bahrain) · Melbourne · Mexico City · Miami · Monte Carlo · Montreal · Munich · Nassau (Bahamas) · New York · Nuremberg · Osaka · Panama · Paris · Rio de Janeiro · San Francisco · São Paulo · Singapore · Stuttgart · Tehran · Tokyo · Toronto · Vancouver

The Economist



Araby's lost glory

Rich Saudi Arabia's economic mistakes, page 13. Its fettered banks, page 78. America's milk cow, page 40. The UN's Iran-Iraq peacemaking, page 32. Gulf coups, page 33.

Europe Inc

Pan-European companies, page 63. Iberian togetherness, page 64. British grocers venture abroad, 73. The EEC's zig-zag fault lines: last in our north-south series, page 50.



My government

Has quite a programme, page 55. But not a pretty poll tax, page 14.

If he's a Gandhi

Rajiv can still fight his way out of the mess, page 15. The man he rejected and should now call back, page 34.

Don't be pompous

Talk to Kurt Waldheim, page 20. No chance of a fourth Reich, page 97.

Now Schroeder

A woman in the White House?, page 40.

Flannelling

The season for cricket books, page 96. British sport in schools, page 59.

Bamboozling budget

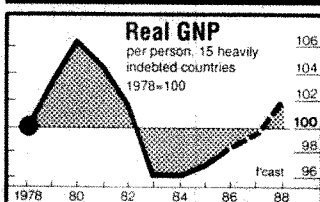
America's congressmen reach an understanding, page 39. Why most of their constituents don't even bother, same page.

Willingly to bourse

Europe's new shareholders, page 79. The lessons of British and French privatisation, page 19. Wall Street roars, page 78. Short-term institutional investors, page 80. The French experience, page 81.

Purées can't fight

That mixed French-German brigade is fine if the idea is to lure the French army back into Germany, page 16, rotten if it makes people think Europe's defence is a blender-job, page 47. Screwed, page 48.



Debtors' future

Not as bad as you think, argues Martin Feldstein, pages 25-29.

Heat on Chun

The crisis for Korea's once and future presidents, page 31.

Poor Texas

Hard times, hard politics, page 37.

Look back, comrades

Let Russia deduce its future from its past, page 16. The lucky 5% of its voters, page 48. Russia's basket-cases, page 36. Hungary goes pluralist, for cats, but Kadar goes for muddle, page 54.



BioAngst

With a mixture of goats and sheep, genetic engineering has its enemies, page 87. And patent problems, page 68.

JUNE 27 1987

Volume 303 Number 7504

World politics and current affairs

- 13 Araby's lost glory
- 14 A bad new local tax for Britain
- 15 Rajiv Gandhi: The man inside
- 16 Back to the future in Russia
- 16 If France wants to help with Europe's defence
- 19 Primitive privatisations
- 20 Kurt Waldheim: In search of scapegoats
- 25 **Latin America's debt:** Muddling through can be just fine. Four pages of optimism by Martin Feldstein
- 31 **International:** Chun feels the heat in South Korea; Gulf war; Sharjah; Peru; Lebanon; V.P. Singh; Hongkong; Bahamas; Russia's basket-cases
- 37 **American Survey:** The pain of buckling up the Texan budget belt; Iran-contra affair; Special prosecutors; The budget; Budget procedures; Patricia Schroeder; America and Saudi Arabia; Coal; Fundamentalists; Black reporters
- 47 **Europe:** Jawohl, mon général; Submarines; Soviet Union; Turkey; West Germany; North-south: the EEC; Hungary; Cats
- 55 **Britain:** Plenty still to do; The economy; Salford; Civil servants; Job schemes; Sport; Child abuse; London theatre

Business, finance and science

- 61 **Business this week**
- 63 **World Business:** Are Europe's companies becoming more European?; Spain and Portugal; Greyhound-Trailways; The rag trade; China's textile quotas; Canadian tax; British Aerospace; Unemployment; Corporate identity; Biotechnology patents; British food retailers; Direct product profitability
- 74 **Company Brief:** Royal Dutch/Shell's split personality
- 77 **Finance:** Killing two birds on Canary Wharf; Saudi banking; Wall Street; Europe's private shareholders; Investing in Britain; French privatisation; Hongkong banking; Taiwan foreign exchange
- 84 **Schools Brief:** Star laws
- 87 **Science and technology:** Battling biofundamentalists; Attitudes to biotechnology; Killer robots; Nutrition; The laws of motion; Decorative plants
- 107 **Economic and financial indicators:** Output, jobs, prices, commodities, bourses, interest rates, trade, currencies, plus a closer look at Iceland and Latin American shares

Books, arts and letters

- 95 **Books and arts:** Fear is the key to terrorism; Cricket; IRA; Futurology; Monks; German art
- 6 **Letters**

© The Economist Newspaper Ltd, 25 St James's Street, London SW1A 1HG. Printed in Singapore

The Economist		Subscription coupon	
The Economist Newspaper Ltd, 2 Jurong Port Road, Singapore 2261, Republic of Singapore.			
Registered in London 238383. Registered Office 25 St James's Street SW1A 1HG.			
Please enter a subscription for 1 year. I enclose payment of			
Australia	A\$148 ☐	Students	☐ A\$119
Hongkong	HK\$650 ☐	Students	☐ HK\$520
Japan	JY23,750 ☐	Students	☐ JY19,000
Malaysia	M\$199 ☐	Students	☐ M\$159
Singapore	S\$185 ☐	Students	☐ S\$148
Other Asia/Pacific	US\$93 ☐	Students	☐ US\$74
Index (Please apply for local rate)			
(£ Sterling and US \$ can be accepted at the current exchange rates).			
Name			
Company			
Address			
Country SP			

LETTERS

Volcker and Greenspan

SIR—Considering the composition of your advertising clients, it is perhaps understandable that you allude to Mr Paul Volcker (May 30th) as being a hero. And being British, you may even be excused for your obsequious portrayal of his career.

But from this side of the pond, Mr Volcker was to America's economy and most of its financial institutions what the Titanic was to the shipping industry. Notwithstanding the unusual circumstances of his Senate confirmation in 1979, his policies of maintaining a hard dollar, high interest rates and a tight money supply have led to a wide range of structural economic and financial problems which appear beyond any remedy. His monetarism was nothing more than an economic mutant capable only of perpetuating neurotic anxieties over inflation while stifling both economic growth and development.

Black River Falls,
Wisconsin

SYDNEY P. HARRIS

SIR—You give me to understand (June 6th):

● That if any candidate except Mr Alan Greenspan had replaced Mr Paul Volcker, "the money markets" would have taken a dive "into the abyss".

● That, apart from Mr Volcker, Mr Greenspan is the best man for the job. But with America's unsustainable budget and trade deficits, most financial folks worry that second-best may not be enough to steady the world economy, the dollar and inflation.

● That "The rich country leaders who meet for their annual economic summit... would hardly admit it, but their talks and pseudo-undertakings count for little unless they are underwritten by American monetary policy."

These words support information from other sources: in terms of American monetary policy the United States has been flying at thin-air altitudes and is headed straight for an air pocket which will drop Americans and their standard of living straight down (in the worst case) to zero altitude.

If the above is accurate, is it not your duty to answer the questions it raises?

1) How come one man is in the position of having "to steady the world economy"? (That's an ab-

surd situation. If true, how did it come about? Adam eating the apple? The invention of usury? The misdeeds of the East India or Hudson's Bay companies? Misuse of credit cards?)

2) How come "rich-country leaders" depend upon a monetary policy which they consider to be, uh, inadequate? (Stupid, if true. Why don't they disengage their economies from ours?)

3) What happens to the world economy if Mr Greenspan falls under a bus?

Greenfield,

New Hampshire RICHARD PHENIX

SIR—You say that the Glass-Steagall Act, which prevents American banks from both underwriting securities and lending, is out of date since today's aggressive, powerful American investment banks do not need protecting against commercial banks in the securities-underwriting business.

To argue this is, I think, to misunderstand why Glass-Steagall was enacted. It was not meant to protect investment banks by barring lending banks from underwriting securities; rather, to stop investment banks entering the lending business. This they had done in the period leading up to the Wall Street crash in 1929. With devastating results, they lent money to clients, among which were many highly geared investment trusts, to purchase securities in whose rising prices the investment banks had more than a passing interest.

London

P.R. OLDHAM

Agriculture

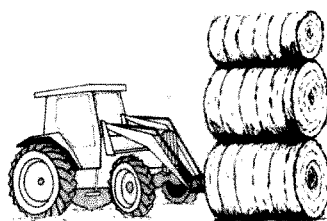
SIR—You state that Japanese agriculture no longer stands unchallenged as a provider of "self-sufficiency in food" (May 23rd). Far from being self-sufficient in food, Japan provides for less than half of its needs. "Food power" is being wielded as a political weapon the world over by countries fortunate enough to have more than they need. It is understandable that a resource-poor country like Japan should prefer to assure a minimum of its food needs (and 50% is surely less than that minimum) by its own efforts. Granted, this could be done more efficiently.

The other side of the coin of America's dependence on the Japanese market for its agricultural exports ("Japan buys more agricul-

tural goods from the United States than any other country") is Japan's already excessive dependence on one supplier which has proved in the past that it is not always dependable. You should also offer some less corny arguments than that agricultural imports should help reduce the trade surplus. Japanese farmers find it hard to comprehend why agriculture should pay for the export successes of Matsushita, Mitsubishi or Minolta.

As for lower farm prices (brought about through freer trade) resulting in cheap shop prices for food, this may be easier said than done. In every industrial country today, the link between farm prices and consumer food prices is increasingly tenuous.

Finally, are the residents of Tokyo really enamoured with the "concrete jungle" which you would like to deliver up to them? You state that big urban areas are "pockmarked" with fields. There are many people, not just green fanatics, especially in such an inhuman conglomeration as Tokyo, who must be only too pleased to look out on to a field of "unsavoury" rice than staring into their neighbour's living room. To compound *The Economist's* legendary lack of knowledge and sensitivity about agriculture, in the same issue you illustrate an article about



wheat with a drawing of bales of hay (made from dried grass). What's the connection?

Rome

M.P. CRACKNELL

SIR—The next time you prepare a chart depicting the world's major wheat producers (June 6th), would you kindly include the world's leading wheat producer—the Soviet Union.

New York

IRA SOHN

The underclass

SIR—As a member of Britain's new underclass, my life is not so much blighted "chiefly because of the poor quality of service provided by the public-sector monopolies" ("The warning in her win", June 13th). It is mainly because I live in 1987 on a 1974 income.

Solzhenitzyn once wrote: "How can you expect a man who's warm

to understand a man who's cold?" I wonder how many people in unbroken employment are able to realise what it is really like to be short of money, as a way of life, almost permanently: month in, month out—sometimes year in, year out.

Birmingham

GRANT KEARNEY

War crimes

SIR—You deem it politically "not unworthy" to bring old Nazis to trial, in order to remind people of what was inflicted by the Germans on our parents and relatives ("All our Barbies", May 23rd). Moses disagreed. He kept his people in the desert for 40 years so that personal memories of slavehood would die out and only a general hatred of slavery would remain. No Pharaoh or Egyptian slavemaster was brought to trial. Some crimes are so great that their punishment is better left to God.

Forty years have gone by since the end of the war. Mr Barbi now an old man. He too is, in a horrible sense, a victim of Nazism, a tool, an instrument of torture. Not all memories are necessarily good for mankind. Should people forever remember the Alamo? Pearl Harbour? Hiroshima? What benefit can you possibly expect from this?

Bahia,
Brazil

CINNA LOMNITZ

SIR—You correctly, if somewhat grudgingly, point out the universality of war crimes, but then destroy your argument by trying to justify the continued singling out of German war criminals for trial.

For all that the Nuremberg and subsequent hearings were conducted in accordance with legal form, only the vanquished were brought to trial. It is surely basic to any concept of natural war that should apply equally to all.

message of Nuremberg to the aspiring military adventurer or social engineer is clear—the only crime is failure.

Were the Nazis worse than others? Any quantitative assessment, even if it correctly measures the horrors committed in Germany's name, will certainly grossly underestimate those of the allies.

You say that the Nazi guilt was worse in kind. Is this just further evidence of how great a spoil of victory it is to be able to write the history books with self-satisfied moral rectitude? Allied crimes, for which there is plenty of selective amnesia and rationalisation, would include the pattern bombing of German towns and cities, the Morgenthau plan and, above all, the

EXECUTIVE FOCUS

CJA

RECRUITMENT CONSULTANTS

35 New Broad Street, London EC2M 1NH
Tel: 01-588 3588 or 01-588 3576
Telex No. 887374

A challenging position with excellent research backing—scope to build a new team and to become a Director in 3-12 months



DIRECTOR FOR FAR EASTERN EQUITIES SALES

LONDON

£120,000-£160,000

FAR EASTERN EQUITY ARM OF A MULTI-INTERNATIONAL INVESTMENT BANK—ASSETS OVER £50 BILLION

This new position to head the start-up of a new team in London selling Far Eastern Equities, calls for candidates aged 25-35, who have acquired at least three years practical successful sales experience in selling equities preferably, but not essentially, Far Eastern Equities. The successful applicant will initially spend a familiarisation period in Hong Kong and will then be based in London, selling Far Eastern Equities to the Bank's 250 plus clients based in the UK and Continental Europe. Some away travel will be necessary. The ability and tenacity to carve out a significant share of business in this highly competitive market and to build and retain an effective team is key to the success of this appointment. Initial salary plus guaranteed bonus, negotiable, £120,000-£160,000 plus car, non-contributory pension, free life assurance, subsidised mortgage, free BUPA and assistance with removal expenses if necessary. Applications in strict confidence under reference DFES 4513/E, to the Managing Director.

NB. A further vacancy exists for a Far East Equities Sales person, £80,000-£120,000 plus benefits. Applications under reference FES 4514/E.

CAMPBELL-JOHNSTON ASSOCIATES (MANAGEMENT RECRUITMENT CONSULTANTS) LTD, 3 LONDON WALL BUILDINGS, LONDON WALL, LONDON EC2M 5PJ.

TELEPHONE: 01-588 3588 or 01-588 3576. TELEX: 887374. FAX: 01-256 8501.

Regional Manager

West Africa

Management Consultancy
based Abidjan

Price Waterhouse are one of the leading international business advisory and management consultancy practices. In Europe, the Middle East and Africa our consultancy activities and interests are co-ordinated through the Pan European Consultancy (PEC).

Within West Africa the need has now been identified for a Regional Manager who, on behalf of PEC, will co-ordinate and market the consultancy services of Price Waterhouse. In addition to liaising with donor agencies and

monitoring IFE projects, you will also work closely with local partners in proposing for and managing assignments throughout the region.

This new and challenging role calls for a mature and experienced management consultant, with previous exposure to the African continent, particularly West Africa. Experience of public sector consultancy would be a distinct advantage and a working knowledge of both French and

English is required.

Remuneration will be negotiable and will reflect the importance of this position. Relocation costs will also be paid.

Please send full CV in confidence to
Bethany Tucker

**Pan European Consultancy
Price Waterhouse
Management Consultants
No. 1 London Bridge
London SE1 9QL**

Price Waterhouse



LETTERS

genocide of East and West Prussia, Pomerania and Silesia.

The post-1945 show-trials may have been intended to support the ancient concept that there are some forms of behaviour which are intolerable even in war. Their biased use for revenge and political advantage has served instead to bring the judicial process itself into contempt.

Johannesburg RICHARD DOEHERING

Tan Wah Piow

SIR—In your report on Singapore (May 30th), you describe me as “a 35-year old Marxist living in Britain”. This is the most damaging remark a paper can make about a Singaporean. I am not taking issue here on whether the term “Marxist” is derogatory. It is more crucial to state that I am a victim of an enormous smear campaign conducted by the Singapore government. The whole aim of the exercise is to criminalise and isolate me as a Marxist, when in fact I am not.

By the definition of the Singapore government, a Marxist is one who protects the interest of the poor, criticises the ruling party, advocates democracy and defends the constitution. Once branded a Marxist, a Singaporean can be held indefinitely without trial. Having branded me a Marxist, the government has now proceeded to revoke my Singaporean citizenship, and declared me the most wanted person in Singapore.

For a publication of your standing to accept the Singapore government's allegations is most disappointing. If you remember the McCarthy days in America, you will realise the amount of damage such a report can do to a person from Singapore.

Oxford TAN WAH PIOW

Not Sherlock either

SIR—It was not Oliver Wendell Holmes but his son Oliver Wendell Holmes, Junior. And he did not say that the life of the law was not logic but common sense (May 30th). What he said was that the life of the law has not been logic: it has been experience.

Experience and common sense are not the same thing, although one should lead to the other. Obviously, experience shows that crimes are not committed by those in prison under detention before trial, but then so does logic. Which raises big question about the rights of those accused of crimes before a verdict has been passed. But it is not clear why the Holmes citation is relevant here.

Geneva FRANCIS M.S. PEEL

Criminals

SIR—Mr D.W. Wright claims (June 6th) that “the dramatic upsurge in crime” is due to the sense of purposelessness experienced by the unemployed. If this were true it would mean that (a) criminals are mainly unemployed people; (b) crime rates co-vary with unemployment rates and (c) crime is commonest in the worst unemployment black spots. None of these implications is supported by the evidence.

The average age of the British criminal is 14.7 years—a school child, not an unemployed person. Some may find robbery so remunerative that they avoid work when they leave school and thus unemployment figures are boosted by crime rather than vice versa.

Many school starters are already violent at five, so the origin of criminal behaviour appears to be either genetic or early upbringing. If crime were largely genetic, this rate would remain roughly constant, which is not the case, and perverted learning during childhood seems a more likely explanation. Twentieth-century changes in the home environment fit the changing pattern of crime better than variations in employment.

In the pre-planning period of traditional housing, the crime rate remained low during boom and slump alike. But, after the advent of flats and houses embodying official design guidelines, crime soared in spite of full employment and continued to do so when joblessness increased. This historical evidence is matched by geographical evidence. Hartlepool, England's worst unemployment black spot, has never built flats and has quite a low crime rate. Northern Ireland, with even greater joblessness, has very little crime apart from terrorism. Local detail, based on 106,000 flats in London, shows that blocks of flats without design defects reported no crime while those with 13 or more defects averaged one crime per year for every five dwellings.

Further evidence of the criminogenic role of bad housing is the halving of crime rates where certain designs are changed, usually without great expense. More thorough-going changes seem capable of virtually eliminating crime and recouping their costs through reduced maintenance expenses.

As long as the concept of unemployment-induced crime is allowed to flourish, it will preclude the very real benefits to be derived from design improvement in problem estates.

London ALICE COLEMAN

Men's colleges

SIR—Your article on women's colleges (May 30th) says there is only one all-male college left in the United States. In that bastion of liberalism, Indiana, there are two excellent all-male institutions of higher education remaining; my alma mater, Rose-Hulman Institute of Technology in Terre Haute, and Wabash College in Crawfordsville.

Chicago, Illinois TIM L. KAMINSKI

Fiji's lesson

SIR—Whereas Mr Marke Terrell (June 6th) thinks that the Fijian situation demonstrates the need for a minority to be given “adequate constitutional power, including physical force, to maintain its integrity”, I would argue that this constitutionally maintained integrity of the separate populations was precisely the root cause of the crisis, as indeed in his other cited examples: Lebanon, Northern Ireland and South Africa.

Two thousand years ago there were no English, Americans or Russians; these peoples evolved through the mixing of diverse populations. Only when people throughout successive generations are separated from interacting and intermarrying by separate land ownership laws, separate religious institutions, separate languages, separate business pursuits, separate voting lists—above all by separate educational facilities—does the development of a common identity and purpose become an impossibility.

Mission, Br. Columbia R. HELWEG-LARSON

Love your adversary

SIR—Having just returned from the 7th Congress of the International Physicians for the Prevention of Nuclear War, held for the first time in Moscow, I was disappointed to read your leader on the need for battlefield nuclear weapons (June 6th).

The threat to use nuclear weapons to deter conventional attack does not require local weapons. These can be delivered just as well by aircraft or missiles farther afield. As the world now knows following Chernobyl, there is no such thing as a safe local nuclear explosion.

The real dilemma comes in the realisation by all NATO commanders that a nuclear device exploded over Soviet forces would lead to a suicidal full-scale nuclear exchange. Nuclear weapons do not make the world safe. Safety has to

be sought in a new manner of relating to one's adversary, and this theme was explored extensively at the congress.

Tavistock, Devon RUPERT GUDE

Canadian politics

SIR—You say (May 30th) that the New Democratic Party is the principal opposition in British Columbia, Alberta, and Saskatchewan, but omit to say that the NDP governs in Manitoba and has enabled a Liberal minority to govern in Ontario since 1985. Perhaps you were influenced by the federal NDP's perennial aspirations to be second best.

Armdale, Nova Scotia MAURICE MANDALE

Kissing

SIR—Your article “Some do it with a bitter look” (June 6th) is quite amusing. However, I do not agree with your view on British greeting customs, as my experience is much closer to what the Dutch humanist Erasmus once wrote, while living in England, to a friend on the Continent:

The English girls are divinely pretty, soft, pleasant, gentle and charming as the Muses. When you go on a visit all the girls kiss you. They kiss you when you arrive, they kiss you when you go away, and they kiss you again when they return. Go where you will, it is all kisses; and my dear Faustus, if you had once tasted how soft and fragrant those lips are, you would wish to spend your whole life here.

Woking, Surrey STAFFAN SODERLIND

CRAWFORD'S

Directory of Market Makers in UK Equities

A GUIDE TO WHO IS TRADING WHICH SHARES

This new directory lists every stock traded by every market maker. With equity market making the scene of the bloodiest fighting for market share, this book will show you who is dominant in which sector and where there is the heaviest and lightest competition. For anyone involved in equities this directory will become an invaluable aid.

Price including postage: £40 UK and Europe; US\$75 North America; £43 Rest of World.

The Economist Publications Limited
Marketing Department (EVELA)
40 Duke Street
London W1A 1DW, UK
Tel: 01-493 6711.
10 Rockefeller Plaza
New York, NY 10020, USA
Tel: (212) 541 5730.

EXECUTIVE FOCUS

Managing Director Asia/Pacific Operations

Business International is seeking an outstanding individual to head its successful Asia/Pacific subsidiary in Hong Kong. Business International, a leader in its field, advises corporations on the impact of changes in the economic and political environment, communicating its analysis through published reports, conferences and research projects. The company, with four hundred staff and offices in twenty countries, recently merged with The Economist Intelligence Unit and is now a subsidiary of The Economist Group.

The Managing Director (or Regional General Manager) has both full profit responsibility for Asian operations, reporting directly to the chief executive, and ultimate editorial responsibility for the quality and insight of Business International's analysis of the region. The position is supported by fifty professional and support staff.

To do the job well, you need to have a good degree in politics, economics or business studies; have an excellent understanding of the Asian business environment; have

succeeded in a management position with full budget responsibility, preferably in a similar business; and be at ease with senior business executives and government officials.

This is an exceptionally rewarding and interesting position for someone wishing to be at the heart of business and politics in Asia. An expatriate relocation and salary package is available.

Initial interviews will be held in London and New York. Please send details of your experience and a letter telling us why you are interested in the position to Ms Angie Mackworth-Young at:

*25, St. James's Street, London SW1A 1HG, England or
12th floor, 10 Rockefeller Plaza, New York, NY
10020, USA*

or to Charles Target at:

*11th floor, Mount Parker House, Taikoo Shing,
Hong Kong*



Director of Corporate Affairs



**We are an equal
opportunities employer**

Following the recently announced reorganisation of Senior Management responsibilities, the BBC is now seeking a Director to take charge of its corporate activities and to represent these interests on its Board of Management.

The Director of Corporate Affairs will have special responsibility for the development of the BBC's Public Relations in all their aspects at home and abroad.

Applicants who feel that their experience is appropriate should write, enclosing a C.V. to Christopher Martin, Director of Personnel, BBC, Broadcasting House, London W1A 1AA, to arrive no later than 3rd July 1987.

"This one room alone is costing us over \$1 million a year



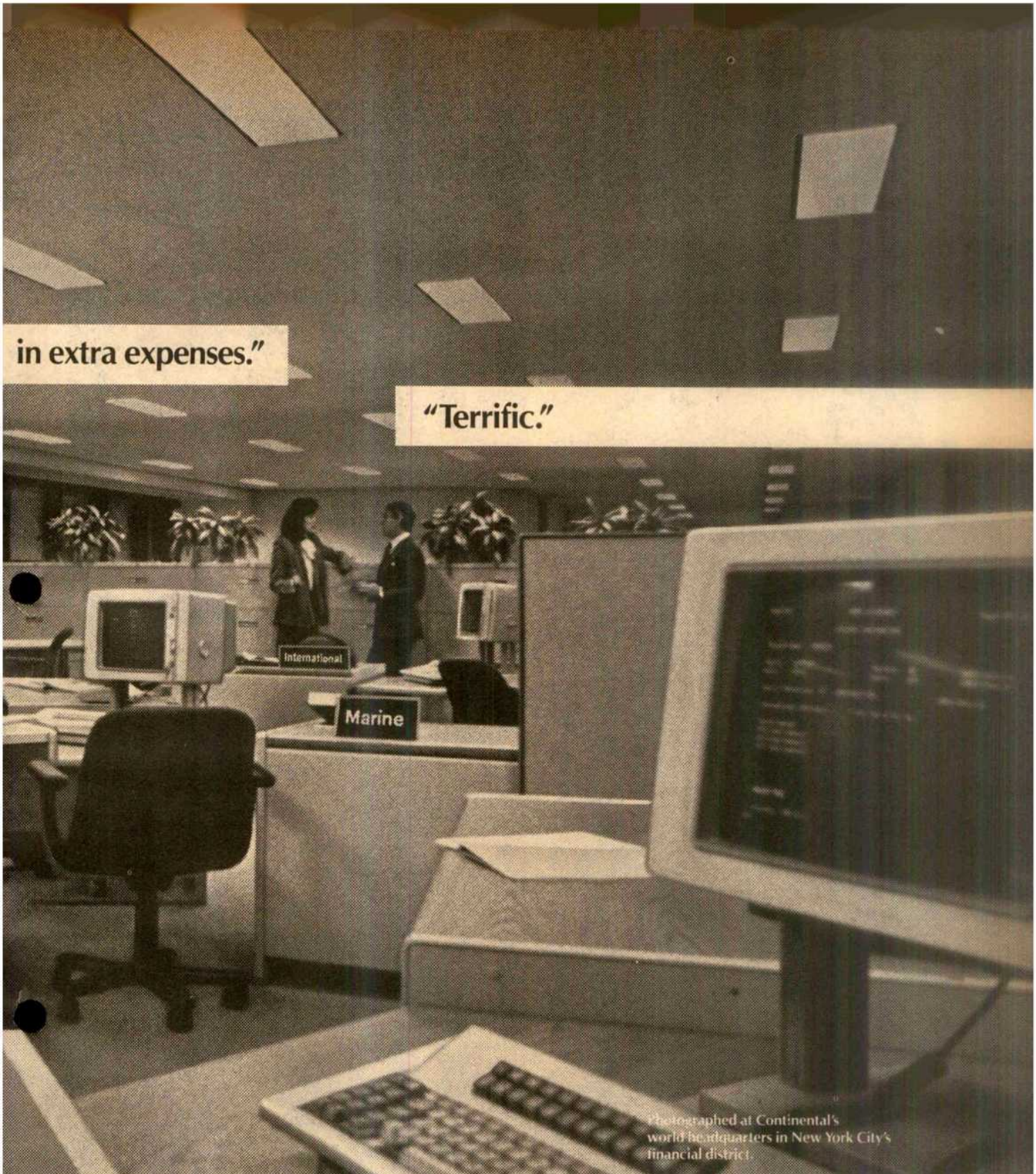
National Brokerage Services Premiums

1982	\$258 Million	
1986	\$426 Million	

Total Premiums from Major Brokers

1986	\$931 Million	
------	---------------	--

It's our Underwriting Room, high-tech nerve center of Continental's brokerage network. Here, a team of Lead Underwriters with the expertise to handle the property, casualty, marine and reinsurance needs of complex accounts responds to broker inquiries almost immediately. Regardless of time zones. This makes them—and us—more competitive. And has helped our National



in extra expenses."

"Terrific."

Photographed at Continental's
world headquarters in New York City's
financial district.

Brokerage Services business triple since 1982. Total brokerage business has climbed to nearly \$1 billion.

The Underwriting Room. Just one of our initiatives to build market leadership positions by focusing on distributor needs. For our latest annual report, write: The Continental Corporation, Dept. CCTE, 180 Maiden Lane, New York, NY 10038, U.S.A. Or call (212) 440-7747.

The Continental Corporation
We have the future covered.®



MANY HAPPY RETURNS FOR OUR SHAREHOLDERS.

PRELIMINARY RESULTS 1987.

Turnover	£1692.3m	up 15%*
Pre-tax profit	£157.4m	up 26%*
Earnings per share	19.9p	up 16%*
Dividend	9p	up 12.5%†

*Against comparable 12 months
† After adjustment for the scrip issue

Once again, we've demonstrated our commitment to increasing returns for our shareholders, with earnings per share up 16% and total dividends up 12.5% for the latest year.

With more acquisitions adding value to the company without diluting earnings.

All of them dovetailing with our existing core business and improving our long-term potential.

AND TO THE CABINET TOWEL.

While we're on the topic of good investments, we couldn't let you miss the 50th birthday of the cabinet towel. Introduced to the United Kingdom by BET's industrial services company, Initial.

It's typical of us. To recognise a good idea, stay with it for fifty years and develop it into a worldwide service that's so efficient it's simply taken for granted.

If you'd like a copy of BET's report and accounts call our free shareholder and employee line, 0800 245 679.

Or write to: Christopher Legge,

BET Public Limited Company, Stratton House, Cannon Row,
London W1X 6AS.

BET

YOU NEED NEVER NOTICE US.

Araby's lost glory

At this week's OPEC meeting in Vienna, courtiers were congratulating Sheikh Hisham Nazer, Saudi Arabia's oil minister, because by depressing his country's oil production to below half its capacity he has helped nudge world oil prices up to \$18 a barrel. They did not point out that he is thereby driving his country towards becoming the world's most astonishing debtor. If Saudi Arabia keeps on its present course all this year—ie, produces 4.1m barrels a day and gets \$18 for each of them—it will earn no more than \$27 billion from its oil exports. As recently as 1981, it earned \$119 billion, and by then had acquired the bad habit of spending it. It has therefore run down its foreign assets during the past five years. Its easily callable reserves now stand at around \$50 billion, which could be gobbled up if its present current-account deficit keeps going for another 18 months. Araby could be asking the bankers for an overdraft by the end of 1988.

This has been the fastest fozzling of an investment opportunity ever. Immediately after the oil-price rises of 1973-74, Saudi Arabia and some of its OPEC allies were raking in foreign-exchange surpluses at about \$115,000 a second. At 1974 prices (see *The Economist* of December 7 1974), they could have bought the equivalent of all four British clearing banks every 11 days, or all the equities on the London Stock Exchange after nine months. Within 1.8 years, they could have bought all the direct investments of American corporations outside the United States. Within 8 years' worth of those net oil earnings, they could have bought an annuity of \$115 a week for every adult Arab, including homeless Palestinians.

Saudi Arabia never began to invest in that way. On the advice of western banks, it deposited its cash with those same banks, unproofed against the huge inflation which OPEC itself was stoking. The banks lent it to double-digit-inflating Latin American governments which therefore accelerated to treble-digit-inflation and went bust. At home, Saudi Arabia increased its public investment in hospitals and schools and universities with Kinnockian enthusiasm, and now cannot afford to maintain or fill or staff them, having been ripped off by every building contractor from Seoul to Stuttgart. It has expanded wheat production at a cost higher than buying ten times as much wheat from abroad, and bought some high-tech weapons from America and Britain that it neither needs nor can use. It subsidises consumption of all the things it should conserve, and its budget has got in great bind.

So don't be surprised, say some oil analysts, that Saudi Arabia is now determined to use the OPEC cartel to keep the oil price up. On the contrary, do be surprised, because Saudi Arabia would benefit if oil prices instead came down. At \$18 a barrel, foreigners now explore for oil in Arctics and oceans where production costs are sometimes 40 times dearer than from Saudi Arabia's cheap desert taps. And \$18 oil discourages any rise in consumption above about 1% a year; Western Europe, which used an extra 3½% in 1986 when oil touched \$9 a barrel, seems unlikely to want an extra spoonful in 1987.

Saudi Arabia has 110 years of proven oil reserves (and lots more unproven ones) beneath its desert sands. These can now be pumped out at a cost of about \$½ a barrel. Yet the Saudis are producing only 43% of what they could, so as to keep the price up at \$18. If they seized market share by letting prices slide to around \$15 a barrel (the average real oil price of the past 30 years), they could boost dollar earnings and make their main export a growth one; within a couple of years, say most consultants, oil consumption would be rising again and foreign exploration falling.

Sheikh Yamani was sacked because he recognised this. His successor is curbing production so as to be kind to neighbouring producers, especially Iraq and Iran who are desperate to get the highest price possible for their dwindling oil so that they can afford to fight a bloody war against each other. If, from 1988, Saudi Arabia needs to borrow abroad to keep repeating Sheikh Nazer's policy mistakes, countries with expensive North Seas might be tempted to accommodate it. But there is a political question that needs to be asked out of all this muddle, and an economic lesson to be learned.

When it can't finance Iraq

The political question is: if Saudi Arabia does drift back into the obscurity which its incompetence has deserved, should western foreign offices be worried that the Gulf will no longer have a rich conservative power willing to finance the least bad side in local wars? Might it even lurch left itself, as its government (delaying borrowing abroad because paying interest is unIslamic, although receiving interest does not seem to be) reduces subsidies on water, electricity and agriculture?

Squeezed Saudis won't lurch left. Any conceivable world oil price will always give them a nice rent above their 50-cent-a-barrel production costs. Only the grossest



western diplomacy could persuade such a nation of comfy rentiers to look to Russia.

The danger is from God, not Mammon. An Iranian victory in the Gulf war might encourage Muslim fundamentalists right the way to Cairo, in particular among Shias who are an 8% minority in Sunni-ruled Saudi Arabia. The Shias, who feel discriminated against, rioted in Saudi Arabia in 1979-80, when falling incomes were not the problem, but Iran's revolution was. The Saudis and Kuwaitis sell oil from the so-called neutral zone on behalf of Iraq, and have probably added \$30 billion-50 billion to Iraq's war chest in other ways. They cannot afford big billions to prop up allies in future, but such propping does not work anyway.

Why not? The real economic lesson from OPEC's decade is to those who think you can make an area richer and more secure by throwing monopoly money and new schools and AWACs and force-fed industrialisations at it, without inculcating an accounting ethic in its people. The

spendthrift tactic did not work in the Shah's Iran or Latin America or Liverpool or anywhere else one can think of. History's greatest experiment in spending has now been run in Araby.

A temporary turn in the terms of trade in 1973-81 suddenly gave the government of 7m Saudis, some of them wandering bedouins, an extra purchasing power per head greater than that of the United States, and the Saudis employed a pack of planners to tell them how to spend it. Their plans now stand like Shelley's desert statue of Ozymandias ("Look on my works, ye mighty, and despair. Nothing beside remains—round the decay of that colossal wreck, boundless and bare the lone and level sands stretch far away"). From this Ozymandias come many morals for the future of aid and planned public investment and indeed all government expenditure everywhere. Those billions of extra public spending have not increased by twopence-worth the Saudis' ability to earn a living in the harder times ahead, but have probably reduced it.

A bad new tax

Britain's local-tax system is not perfect. The government's alternative would make it worse

In Margaret Thatcher's second term, her government spent much of its political capital, and months of parliamentary time, waging war against local councils. Her new government is about to launch another attack, on the way councils are financed. It wants to reform Whitehall's grant machinery and to replace locally set business rates with a uniform national rate. And it plans to replace household rates with a "community charge" on all adults; in plain English, a poll tax. The government has already brought the tax into law in Scotland, claiming it would be a vote-winner. In fact the Tories lost more than half their Scottish seats. There lies a moral which Mrs Thatcher would be daft to ignore.

Ultimately, the government won the war of 1983-87; not just because steamroller majorities always do, but because most of its aims were at least arguable, and the councils under fire were mainly high-spending, Labour-run, superfluous, or all three. The public was largely indifferent: sensible folk do not go to the barricades for things called grant-related poundages or the West Midlands County Council. In contrast, the new system will affect every council and the poll tax every adult. Councils—Tory and Labour almost alike—are already hostile. There is a large risk that most voters will become so.

If the poll tax were a good tax, ministers would still be right to press ahead. It is not. Its aim is worthy enough: to make local councils more accountable to their voters. Many of those voters pay no rates—either because they are not householders or because they get rate rebates. But these numbers are much exaggerated by the government's pretence that wives do not really notice their husbands' rates bill (try that on the wife of Mr Denis Thatcher). And part of the point has already been answered: the new social-security rules will make all householder-recipients

of welfare benefits pay at least one-fifth of their rates bill.

In any case, the new system, overall, will not make councils accountable to their voters, but to central government. Already, around 45% of the money to pay for English councils' net current spending (55% in Scotland, 65% in Wales) comes from central government. So, effectively, will all the money produced by the new uniform business rate. Councils will directly control the cash to pay for about 25% of their spending in England, 20% in Scotland, 15% in Wales. The effect is that councils will answer to the centre, which will refuse to increase grants; so voters will find that a 1% rise in local spending requires a 4% (or 5% or 6%) rise in the poll tax.

Rates are not so awful

It is a real merit to make all adults think of the costs of the services they vote for. Yet it is precisely because most householders know to the penny their local rates bill (unlike, say, their bill for a year's value-added tax) that rates are so unpopular. That unpopularity was much exacerbated, especially in 1979-82, by sudden huge rises. The poll tax will be even more liable to huge leaps; and, under the new system as the old, they will often arise from central-government decisions, not local ones.

The poll tax will be harder to administer than rates, and twice as costly. It will much be easier to evade. Domestic rates are a tax on houses, and houses cannot move. People can. Registers will have to be drawn up, kept up-to-date and enforced. That can be done, but at a price in money, snooping and prosecution. Many will still escape.

Perhaps the greatest merit of domestic rates is that they are the only mechanism for taxing all owner-occupied property. Without the complexities of a wealth tax, they are an easily administrable, almost inescapable substitute



for one, aimed only at non-productive capital. And, broadly speaking, they hit richer people harder.

Like rates, the poll tax will be set locally, not nationally. But in each district it will cost all adults (once their income is above the benefit level) an equal sum. No party dreams of applying that kind of equality to income tax. Even those who accept it for a poll tax should note some of its likely results. More tax will be paid by families whose teenagers stay at home to look for work, rather than moving into fly-by-night squats. Because the tax is the same in leafy suburbia as in cramped downtown, it will tempt from the inner cities their most useful citizens—the ones with the skill or guts to get a well-paid job. The

beneficiaries will be old ladies living alone in large desirable houses, who will also have less of an incentive to take in lodgers.

The better course would be to improve the rates: by a shift, maybe gradual, maybe first in districts that ask for this, to a tax based on capital values, or even just by regularly updating rateable values, as happened in Scotland in 1985. That indeed led to an outcry, but not because the revaluation was unfair. On the contrary, it was extremely fair: it reflected new realities, such as the slump in manufacturing. The government is ready to defy an outcry to bring in an unwise new tax. It would be more logical to improve a workable old one.

The man inside

That Rajiv's name is Gandhi can help him defy the storm

One-party systems are bad enough. One-family one-party systems are a guarantee of disaster—unless, as in India today, they are the last chance of salvation for a young politician in deep trouble.

Mr Rajiv Gandhi is having a horrible time as India's prime minister. His humiliation in last week's Haryana state election comes on top of a pile of previous embarrassments: senior colleagues mistreated, scandal accusations mishandled, little Sri Lanka pettishly wrist-slapped, continuing carnage in Punjab. Mr Gandhi became prime minister in 1984 not only because the Congress party almost always holds most of the seats in India's parliament but because, after his mother's murder, the party wanted as its figurehead Indira Gandhi's son and Jawaharlal Nehru's grandson. To a decent, diffident amateur like Rajiv Gandhi, that principle of selection now looks like a trap. It could also be his means of escape.

He has a couple of years before India gets ready for its next general election. If he wants to break out of the mess, this man called Gandhi—scion of the family that has ruled India for most of the past 40 years—can defy the Congress party to remove him. The worst parts of the party, having lured Rajiv to get rid of the government's chief corruption-chaser, Mr V.P. Singh, are not in ousting mood. Clearer-sighted Congressmen realise that this Gandhi is not in 1987 the vote-winner he was in 1984, but no party trusty who would be any better at getting out the vote is even remotely in sight. Provided Mr Gandhi has the guts for it, he can tell his deeply unsatisfactory party that it will have to put up with what he does in the next two years, like it or lump it. He can then use his new freedom to start India's, and his own, repair job.

This will not begin, as most outsiders expect, with a "solution" to the Punjab mayhem. A half-hearted attempt to satisfy the Sikhs of Punjab having been shelved in an unsuccessful attempt to appease the Hindus of next-door Haryana, a negotiated peace now has to wait. Like Spain with the Basques, and Britain in Northern Ireland, India may have to steel itself for years of disciplined terrorist-hunting and counter-terrorist precautions. Mr Gandhi's

immediate tasks, while that is going on, are to patch up his apparatus for ruling India, and to have another go at opening up India's economy to market forces.

The first task means inviting back some of the bright, independent-minded men he has sacked or side-tracked in the past 18 months because they made him, or the crooks in the Congress party, feel uncomfortable: Mr V.P. Singh to an economics job, perhaps Mr Arjun Singh to the defence ministry, maybe even the brooding Mr Arun Nehru to a post that would stretch him and divert his capacity for mischief-making. Mr Gandhi also has to get a grip on the Congress party. His mother cut it away from its roots, by replacing so many elected party officials with her own second-rate placemen. Either her son has to reconnect the party with ordinary Indians by ordering new party elections (and showing his over-cautious friend Mikhail Gorbachev how to do it the pluralist way), or he needs at least to put in a better class of placemen. Either way, the party hacks will hate it. But if the alternative is to risk splitting the party and losing the next general election, they are unlikely to defy him.

Licensed rut

The priority with the economy is another, steadier go at dismantling the licensing rules that stop Indians getting the cheaper, better goods which freer competition would provide. Average real incomes will keep growing at a mere 1-2% a year so long as India combines a large and inefficient public sector with a private sector which the licensing system preserves in almost public-sector standards of uncompetitive comfort. The surest way to crack the cocoon would be to allow more imports in, but Indians must at the same time be given the freedom to rise to a challenge from abroad.

Even this limited agenda asks a lot of a man who would rather never have been king. The alternative is an India sliding towards economic stagnation, internal disintegration, feeble bullying of the neighbours. The cruel tongues of Delhi have taken to calling Rajiv Gandhi "the boy". The man within can still wipe the smirk off their faces.



Back to the future

Mikhail Gorbachev should throw the history book at his Central Committee

Revolution is a hard school. This week Mikhail Gorbachev was trying to shove more of the economic bits of what he calls Russia's "second revolution" past his Communist party's nervous Central Committee. Back in January, the committee griped about his policy of *glasnost* and attempted to block the timid political experiment which for the first time, on June 21st, allowed a handful of Soviet citizens a choice between official candidates in local elections. Imagine, then, how the faint-hearted must feel about hints in the Soviet press that Mr Gorbachev's promised new revolution may include telling some ugly truths about the old one.

For years, Soviet historians have rewritten history without a blush. Khrushchev became a non-person, Stalin's purges never happened, collectivisation was welcomed by the peasants, and nary a dissenting voice was raised against Lenin, the man who invented the one-party system that threw up Stalin, Khrushchev and Brezhnev. Even *glasnost*, which has exposed some of today's foolish economic policy-makers and corrupt bureaucrats, so far stops short of digging up the past. Last summer Mr Gorbachev himself told Russia's writers that taking a look at history would divert people's energies from reform today. Now, praise be, he seems to have changed his mind.

A country that cannot look its past in the eye is going to make a mess of its future. Mr Gorbachev now says that there should be "no forgotten names and no blank pages" in Soviet history books. Which will he choose to paste back in?

The past comes back to haunt them

Embarrassing though it is to talk about even now, the truth about Stalin's brutalities is probably easiest to own up to. One Soviet historian has already admitted that about 17m political prisoners passed through Stalin's labour camps between 1937 and his death in 1953. About half of them probably died there. There have been calls for the rehabilitation of old Bolsheviks who helped Lenin make his revolution, only to be shot as traitors after

Stalin's show-trials of the 1930s. The numbers, and the names, are by now less important than the ideas some of these people stood for.

In the roll call of now-mentionable old Bolsheviks, the name of Bukharin stands out. Back in the 1920s, Bukharin said that Stalin was pushing collectivisation much too fast, and argued for a better deal for the peasants. He also thought that the headlong rush into industrialisation would harm the Soviet economy. He was shot for it, but he was right. As Central Committee secretary in the late Brezhnev years, Mr Gorbachev tried, without success, to coax better results out of an agriculture still half-dead from the beating it took in the Stalin years. As party leader, he now has to grapple with the whole initiative-killing system of central planning that Stalin built. So far Mr Gorbachev has disinterred only Bukharin's name, and his ideas. But politicians do not open up the history books for history's sake. No wonder the central planners are looking grey.

Even trickier to tackle is Lenin. It is one thing to admit to past "excesses". It is much harder to question the single-party rule that allowed those things to happen, when that party is still the one in sole power. Lots of Russians have heard of Rosa Luxemburg, the celebrated lady who tried to make revolution in Germany after the first world war. Nobody tells them that she fell out with Lenin over his plans for an all-powerful party. Martov, who split with the Leninists over their insistence on violent revolution, now rates the odd mention in the Soviet press, but his argument with Lenin still doesn't.

In January Mr Gorbachev called for more "democracy" in the Communist party. He seems to mean more freedom for party people who agree with his ideas of reform. Soviet history proves that democracy needs to go much deeper than that: it has to include the checks and balances which can prevent tomorrow's bureaucrats from clawing back those absolute powers. Seventy years after the Bolshevik revolution, it is time the Communist party came clean about why it got so much so wrong.



If France wants to help

Pipelines and airfields matter more for Europe's defence than a brigade of troops with translation troubles

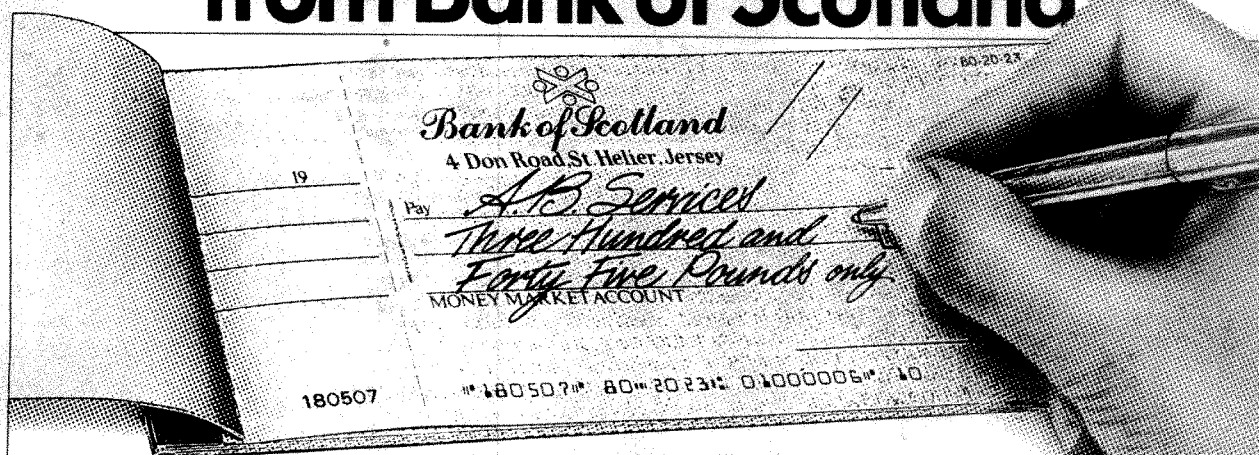
It may not be war, but it is symbolically magnificent. Mr Helmut Kohl, the West German chancellor, is making a fresh effort to entice France back into the heart of the Atlantic alliance. On June 19th he proposed that the French and West German armies should form a mixed brigade to operate in defence of Western Europe. The

formation of one such brigade would not add much to Europe's protection: if the brigade's men came out of the two countries' existing forces, and needed dictionaries before they could dig their foxholes, it would be more of a subtraction than an addition. So why suggest it?

Because Mr Kohl is aiming for something bigger. By



An Offshore Money Market Cheque Account from Bank of Scotland



DO YOU WANT?

- High Rates of Interest
- No notice of withdrawal
- A cheque book to give you easy access
- An Offshore Account based in Jersey paying Interest Gross.

AND ALSO

- Available to applicants world-wide
- No need to have another account with us

INTEREST PAID GROSS

8.10% = 8.41%

Applied Rate*

Compound Annual Rate* (C.A.R.)

*Interest rates may vary-rates quoted correct at time of going to press.

WHAT ARE THE DETAILS?

Minimum opening balance **£2,500**
Minimum transaction **£250**

Interest is calculated daily and applied monthly. Cheques may be payable to third parties and all transactions should normally be in sterling. Statements are issued quarterly (more frequently if you wish). First 9 cheques per quarter are free of charge.

Up to date rate of interest available by telephoning Bank of Scotland, Jersey 0534-39322.

Simply complete the coupon below and enclose your cheque. An acknowledgement of your deposit will be sent by return and your cheque book will follow a few days later.

Bank of Scotland was constituted in Edinburgh by Act of Scots' Parliament in 1695. Copies of the Annual Report and Accounts are available on request from R. C. Horrie, Senior Manager, Bank of Scotland, 4 Don Road, St Helier, Jersey or from Bank of Scotland, Head Office, The Mound, Edinburgh EH1 1YZ. Bank of Scotland Proprietors' Funds as at 28th February 1987 were £558.6 million.

Deposits made with offices of Bank of Scotland in Jersey are not covered by the Deposit Protection Scheme under the Banking Act 1979.

To Bank of Scotland Money Market Accounts Centre,
4 Don Road, St Helier, Jersey.

I/We wish to open a Money Market Cheque Account.
I am/We are aged 20 or over. (Please complete in BLOCK CAPITALS.)

FULL NAME(S) _____

ADDRESS _____

SIGNATURE(S) _____

DATE _____

For joint accounts all parties must sign the application but only one signature will be required on cheques.

I/We enclose my/our cheque for £ _____ (minimum £2,500) payable to Bank of Scotland.

Should the cheque not be drawn on your own bank account, please give details of your bankers.

MY/OUR BANKERS ARE _____ BANK

BRANCH _____

ACCOUNT NUMBER _____

Bank of Scotland Jersey offers a full range of services. For further information tick box ☐



BANK OF SCOTLAND
A FRIEND FOR LIFE



Johnson Matthey

Highest pre-tax profits

Preliminary results for the year ended 31st March 1987

OPERATING PROFIT	£60.4m	UP 31%
PROFIT BEFORE TAX	£50.5m	UP 68%
PROFIT AFTER TAX	£36.0m	UP 67%
EARNINGS PER SHARE	25.2p	UP 71%
ORDINARY DIVIDEND	5.5p	UP 120%

CATALYTIC SYSTEMS

Profit £15.5m, up 2%. Leading position in US autocatalysts maintained; good growth in Europe.

MATERIALS TECHNOLOGY

Profit £17m, up 34%. Successful year for platinum industrial products, chemicals, electronic materials, rare earth products and biomedical compounds.

PRECIOUS METALS

Profits £19.9m, up 58%. Good activity in platinum group metals and gold; increased demand for high purity refinery products; significant improvement in refining results.

COLOURS AND PRINTING

Profit £8m, up 45%. Sales of ceramic colours and pigments up; good performance from ceramic transfer operations.

FINANCE

Continued debt reduction despite higher metal prices. Interest down 38%.

OUTLOOK

With restored financial health, focus will be on further development of group's expertise in advanced materials and precious metals technology, plus continued emphasis on quality improvement in all activities.

COPIES OF THE ANNUAL REPORT WILL BE AVAILABLE FROM 30TH JUNE 1987 ON REQUEST TO THE COMPANY SECRETARY, JOHNSON MATTHEY PLC, NEW GARDEN HOUSE, 78 HATTON GARDEN, LONDON EC1N 8JP. TELEPHONE: 01-430 0011

themselves, the West German, American, British and other divisions which at present man the front line in Germany have too few men, tanks and guns to be sure of stopping a Soviet attack, let alone pushing it back to the frontier between the Germanies. With the French army ready to help as a mobile reserve, they would have a much better chance of holding the line, and doing it without using nuclear weapons. One mixed brigade is not what Mr Kohl is after. He wants to re-link the whole French army to those of its allies. He is asking a lot.

When de Gaulle took France out of NATO's integrated command in 1966, he struck a nationalist drum that stirred most Frenchmen's blood. The French army, said the old chauvinist, was a living emblem of France: it could therefore not be commanded by an American general. France would abide by its promise to fight alongside its allies if they were attacked, but it would do so in its own way. Today's France is less simplist than de Gaulle's but neither the Socialist President Mitterrand nor his conservative prime minister, Mr Jacques Chirac, is ready to contemplate a full return to the days before 1966.

No matter. There are other, easier things that France could do, which would be almost as helpful. The first is to tidy up its preparations to fight in Germany "alongside its allies if they are attacked", to cite the Gaullist text that still has to be the basis of any appeal to France.

A lot of useful work is already being done. The French corps stationed in the bottom left-hand corner of West Germany would not have to move far to reinforce the southern part of the German front. The headquarters of another corps was recently moved to Lille, in north-east France, behind the northern part of the front. Small airmobile units from France's Rapid Action Force are being trained to pinch off small Soviet breakthroughs before they become big ones. (Some will take part in a NATO exercise in West Germany this autumn.) Detailed agreements on wartime co-operation have been worked out between French and NATO commanders, though they

are kept secret to save French politicians' faces.

A little more could usefully be done on the same lines. One or two more French divisions could be moved forward into northern France, and practise for the God-ford day when they might have to move on into Germany. But France could help most by doing two more specific things.

An army marches on its logistics

It could reopen the NATO supply lines which used to run across France from its Atlantic ports, such as St Nazaire and La Rochelle. The alliance's present supply route starts in North Germany (which takes two extra sailing days from America) and then runs south, parallel with and dangerously close to the front line. Hush-hush agreements exist to open up the French route in wartime. But it could not be done in a few days: trucks and drivers would have to be found, fuel dumps established, unloading equipment put into place. Better to get the system running now than make a frantic switch to an untried supply line after the fighting started.

Even better, France could agree to let a few of its military airfields be used for the reinforcements which would have to be flown in from the United States in time of crisis. This would mean making sure the airfields were ready to use, and letting the Americans store some ammunition, spare parts and other supplies there now; it would not mean actually using the airfields in time of peace. If war did happen, thousands of American aircraft would fly into Europe, carrying troops or joining in the fight on the border between the Germanies. If a lot of West Germany's airfields were put out of action, France would be the best alternative way of getting the aircraft in.

Bringing reinforcements in from America could be the hardest part of the first few days of a war for Europe (which also means a war for France). France could make it much easier. That would be worth more than a bilingual brigade or two.

Primitive privatisations

Selling state assets is an art, but an improvable one

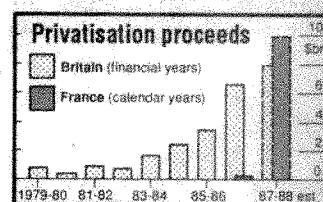
The only excuse for the French and British governments sticking to a conservative approach in their radical programmes of privatisation is the fear that an over-priced issue would stall the whole effort. That would be awkward. Both have invested much political capital in creating nations of small shareholders. They have also come to count on the money from selling state assets: Britain will get £5 billion (\$8 billion) this year, France probably FF60 billion (\$10 billion). But while caution was once sensible, it is now irresponsible.

Their privatisation programmes have gone so well that both countries need to start getting themselves a better deal. In France, what was meant to be a five-year plan (which does not, however, include any "difficult" privatisations of state-owned monopolies) could be completed in

three. In Britain, privatisation has already trebled the number of individual shareholders, to at least 9m. Yet both governments are still repeating the mistakes they made in the experimental stages of privatisation.

The big British mistake is routinely to under-price state assets. The two latest cases in point are the flotation of British Airways, where the share price soared to an immediate premium of 84%, and the flotation of Rolls-Royce, where the premium was 70%. It is a timid tactic that produces an unfair transfer from all taxpayers to the astute or lucky subset who successfully apply.

Mr Chirac's government appears quickly to have learnt how to price its issues more realistically than Mrs Thatcher's. It started badly: shares in Saint-Gobain, the glass maker, rose 20% above their offer price when



trading opened; so did those in Paribas, a bank. But Compagnie Générale d'Electricité, the most recent large French sale, is trading at only 10% above its original purchase price, and shares in Société Générale, for which the offer closes on June 27th, are selling on the advance "grey market" at about the same premium.

The big French mistake is different in kind, though not in its result. The taxpayer gets too little for a flogged state enterprise because his government gives so much of it away—in deep discounts to employees and by converting *certificats d'investissement* into equity. Government fears of overwhelming the under-capitalised Paris bourse are the main reason for this profligacy. Yet the bourse has shown itself to be adaptable: it cheerfully produced twice as much new capital in 1986 as it had in 1985.

A better sense of the market

In Britain, the government could start to save the taxpayer money by paying City firms less. It should insist on a performance clause for its merchant-bank advisers that links their fees to how keenly they price the stock. And it could save money on underwriting fees, which currently stand at $1\frac{1}{2}\%$ of the issue's value. This has already been shaved, by getting the underwriting banks to compete for

the business. It could come down further, by extending competition to the sub-underwriters, whose fees make up most of the costs. The French government could save money by introducing some competition into the underwriting, too. At present, it pays a fee of 2.9%.

These, though, are small economies, worth a few million francs or pounds a year. The big gains will come from France and Britain getting a much better feel for the likely demand for each privatisation issue. The announcement this week that around 25% of the British Airports Authority (BAA) will be sold by tender is a step in the right direction. Investors willing to put up more than £1,000 will bid what they think the share is worth, and have their orders filled from the highest price downwards. The other 75% will be sold via the normal offer for sale. At the normal giveaway prices?

To ask the question is to carp. If the auction proves a success, the BAA issue will deserve praise as a brave pioneer. Privatisers everywhere could then build on its experience. Advance auctions of part of the stock of a privatising firm are an obvious possible refinement. They could provide a realistic guide to the right price when the rest of the stock is put up for sale. Stags stand to lose; taxpayers to gain.

In search of scapegoats

There is more than a touch of hypocrisy in the criticism of Austria's President Waldheim



The Pope is not sorry for Kurt Waldheim. Neither God nor the Vatican is noted for expressions of sentimentality. There were practical reasons why the Pope received Mr Waldheim this week: he is the elected president of Austria, a Roman Catholic country which the Pope is due to visit next year; the Vatican considers that he helped to keep the world peaceful as the United Nations secretary-general; and he asked to see the Pope. The last reason may be the one that counted most. The Pope keeps an open door. Mr Yasser Arafat walked through it before Mr Waldheim did. Others will follow, dodging the stones as they are cast.

The Pope has thus declined to associate himself with those countries which are treating Mr Waldheim as a pariah: including the United States, which barred him in April because of suspicions about his record in the second world war. By implication, the Pope is criticising the boycott. Other people, especially those more interested in individuals than in demos, can question its purpose. Is an individual Jew more likely to be treated with atonement in Vienna this summer, or to be insulted? The truth is that he is more likely to be insulted. When 54% of a decent, democratic people have voted for a man previously picked as the top international civil servant by all the great powers' chancelleries, you do not turn them sweeter by boycott campaigns from countries which tolerated, even applauded, the Amins, Ceausescus and Marcoses. Why has Mr Waldheim been chosen for the chill?

He has had the misfortune to be linked, in an apparently minor way as a young man, with some of the Nazi acts

that send a shudder through the world more than 40 years after they were ended. He lied about details of his wartime service, and his detractors say he is lying still. But note that the American anti-Nazi law under which Mr Waldheim has been barred dates only from 1978. Western democracies overlooked Nazi backgrounds when it suited them. Klaus Barbie became a western agent. Scientists who had helped Nazi Germany helped America into space. Is the campaign against Mr Waldheim a tardy desire for atonement, or a fashionable hunt for scapegoats? Mr Waldheim appears to have thrived in this besmirched century, managing to stay among the favoured with giving orders rather than taking them. Not only is he a survivor, but at 68 he has survived rather well. So he looks a tempting scapegoat.

It is a dismal fate to have a scapegoat as president. Although the Austrian president has little power—the chancellor is the political head—he is supposed to personify the country. At the time of Mr Waldheim's election last year, Austrians thought they were choosing an internationalist who would give prestige to a small country. They believed that allegations about his past would soon be dismissed or forgotten. This week Austria formally acknowledged that the president's past will not go away. The government set up a commission, under a Swiss military historian, to investigate Mr Waldheim's wartime record. The world has had its sport. The Pope has done his thing. It is the Austrians who have to live with their choice. If it needs to be changed, only they should do it.



CARRAGREEN CURRENCY LTD

FOR THE DISCERNING SPECULATOR

Foreign Currency Contracts: Don't have the wool pulled over your eyes.

Many New Zealanders are now becoming aware of the high earning potential of foreign currency contracts.

Be aware — it's speculation — not investment and you could lose all your money

As the leaders in this field, Carragreen offers both the individual and corporate speculator outside New Zealand the opportunity to become involved in this area of foreign currency speculation which aims to profit from continuous variations in the values of world currencies. Naturally, **risk is involved** owing to the volatility of these markets. But with a Carragreen Currency contract, you cannot lose more than you outlay. And the risk is balanced by the chance of significant gains.

It can be an ideal way to utilise funds that you don't regard as a crucial part of your assets.

Even if you already have a foreign currency contract, better compare it to ours.

Carragreen can offer the most competitive leverage in this marketplace without being a "\$2, no-frills" company.

We enjoy substantial financial backing and can boast an outstanding trading record.

In fact, we encourage prospective clients to check our professional references which are unmatched throughout the industry. And our network of offices throughout New Zealand and Australia makes us the largest organisation of our kind in the Southern Hemisphere.

So the choice becomes obvious.

Because when you deal with Carragreen, you speculate on the currency, not the company.

We have an office right in Auckland/Christchurch so come in and see us or phone us on (09) 390-503 / (03) 799-002 for the real facts on Foreign Currency Contracts.



CARRAGREEN CURRENCY LTD

AUCKLAND

Level 5

16 Waverley Street

Auckland

Telephone (09) 390-503

CHRISTCHURCH

Ground Floor

103-105 Worcester Street

Christchurch

Telephone (03) 799-002

KP 240791

To:



Carragreen Currency Ltd.,

5th Level,

16 Waverley Street, Auckland, N.Z.

Phone (09) 390-503

Yes, please tell me, free and without obligation,
how leverage can make all the difference in foreign
currency trading.

NAME _____

ADDRESS _____

PHONE _____

N1 10/86



Five years ago they sat on their assets.

We've heard of companies who didn't realize insolvency loomed until the Receiver walked through the door.

It's not as ludicrous as it sounds. After all, how much time can you spare for taking a long-term view of your company?

If business is running smoothly it's very tempting to adopt a 'take each day as it comes'

policy. Just the mistake the company in the picture made. Big profits five years ago and now facing up to lean times.

If only they had talked to us at NatWest, we could have helped them remain competitive.

Indeed, we could have supplied the time and initiative required to help them manage all their financial risks. In the shape of a personal contact, one of our account executives.

He'd have begun by gleaning a thorough knowledge of the business, its methods, aims, and the market it operated in.

Australia 177326 · Bahamas NS20111 · Bahrain 8294 · Belgium 21208 · Brazil 2130051 · Canada 06-22572 · Federal Republic of Germany 17 71 786 · Mexico 489588 · Monaco 50641 · Netherlands 50641 · New Zealand NZ3903 · Singapore 28491 · S. Korea



Enabling him to give informed answers (not snap judgements), in response to the quick decisions often called for in risk management.

His advice on debt structuring would not only have improved the cash position, but also given the company the resources to invest and remain competitive.

And, just as importantly, remain liquid.

To do this he'd have called on some of the financial instruments at his disposal, which could include Currency Loans, SWAPS, Options, Banker's

Acceptances, Performance Guarantees and Forfeiting.

More than likely, he'd have consulted the legal, accountancy and treasury specialists in our Group Financial Engineering Unit in London.

And drawn on all the experience of Britain's biggest bank, complete with a network spanning 37 countries, an asset base of over \$120 billion and a top credit rating.

If only that company had talked to us . . .

May we urge you to? While you're still sitting pretty.

Risk Management by NatWest The Action Bank

500 - France 210393 - Greece 216673 - Hong Kong 61672 - Ireland 25166 - Italy 320663 - Japan 28292 - Malaysia 33044
3 282 - Spain 23572 - Sweden 15050 - Switzerland 812186 - UK 885361 - USA 233563 - USSR 413258

The first man-portable automatic test system will improve weapons readiness, reduce turnaround time, and ensure mission success during rapid deployment of military aircraft. The Generic Test System (GENTS) is a highly mobile automatic test system used to support avionics maintenance. GENTS contains a micro computer, control and support software, and instrument-on-a-card technology. It is compliant with the USAF Modular Automatic Test Equipment (MATE) standards. A team formed by Hughes Aircraft Company, AAI Corporation, Rockwell International, and Test Technology, Inc. is adapting GENTS for the National Guard A-7 Corsair.

The United Kingdom's new air defense system will extend the range of coverage while providing faster data processing and more secure communications between radar sites and command centers. The UK Air Defense Ground Environment (UKADGE) will provide protection reaching nearly to Iceland and Norway, and over 300 kilometers southwest over the Atlantic Ocean. It will tie into NATO's and France's air defense systems as well as the UK's civil aviation network. If one command center should become disabled, its functions can be transferred automatically to another. Commanders at each center will have an overview of operations by watching a large-screen display. UKADGE is being built by UK Systems Ltd., a company owned jointly by Hughes, Marconi Radar, and Plessey.

The U.S. Navy can detect enemy ships and submarines at long range with a towed array sonar system carried by nuclear-powered submarines. The AN/BQQ-5 and AN/BQQ-6 systems are designed to meet current submarine threats and provide major improvements over existing systems. Hughes manufactures the beamformer, processor, and low frequency receiver portions of the systems.

U.S. Army's Fiber Optic Guided Missile (FOG-M) uses a new winding technology to deploy its plastic-coated glass fiber. This fiber permits a two-way jam-proof communication link for transmission of television-like pictures of enemy armor and helicopters to a gunner station located in a protected position. Using technologies learned from 20 years of producing Tube-launched, Optically tracked, Wire-guided (TOW) missiles, Hughes engineers developed a method of precisely winding optical strands so that they can be dispensed at missile velocities without interruption of the data transmission. Because the optical fibers are not much larger than the thickness of a strand of human hair and are elastic and pliable, Hughes invented a device which precisely measures the elasticity of each fiber thus allowing it to be spool-wound with precision. Another Hughes technological advancement is a diagnostic instrument that detects defects in the fiber.

British Army Lynx helicopters will "see" in darkness, smoke, and haze after thermal imaging systems are integrated into their TOW roof sights. The current telescopic sight is effective for firing TOW anti-tank missiles during daylight missions only. The thermal imaging system will expand the sight's capability into 24-hour operation. Hughes, developer of the airborne TOW system, will integrate four British-built thermal imaging systems under contract to British Aerospace. Hughes will also perform qualification testing and will provide support for the flight tests. British Aerospace, which is licensed to produce the roof sight, will then retrofit 107 systems in the United Kingdom. Hughes has produced and delivered more than 1,500 airborne TOW systems worldwide for installation on U.S. and foreign-built helicopters. The TOW missile has been deployed with the forces of more than 30 nations.

For more information write to: P.O. Box 45068, Los Angeles, CA 90045-0068 USA

LATIN AMERICA'S DEBT

Muddling through can be just fine

Recent decisions by big banks to make provisions for part of their loans to developing countries are a milestone on the tortuous road from over-exposure to stability. Mr Martin Feldstein, former chairman of President Reagan's Council of Economic Advisers and now professor of economics at Harvard, argues that the moves will prove part of a gradual, market solution to Latin America's debt burden. In these four pages, he explains his optimism

The world has been muddling through the Latin American debt problem with reasonable success for nearly five years now. The frequently predicted crisis, in which debtor countries repudiate their debts and big banks are no longer able to attract deposits, has not occurred.

Heavily indebted countries have suffered four painful years of economic decline that have pushed real incomes down to the level of a decade ago (see charts on next page). But their growth has now resumed, and is expected to continue. Although banks still find their loans to these countries uncomfortably large in relation to their capital, the loan-to-capital ratios have been gradually improving and are now, in some cases, down to half what they were in 1982.

Citibank's recent decision to write down the value of its \$14 billion portfolio of

developing-country loans by about 20% is likely to be an important step in the evolution of this market-oriented muddling-through. The significance of Citibank's action did not lie in the accounting gesture that explicitly recognised what everyone had long known to be true. Loans to the big debtor countries sell at discounts ranging from 30% to 40% in the secondary market, and the share prices of big American banks have been depressed in direct relation to their volumes of developing-country debt. Moreover, Citibank's act of increasing reserves by writing down assets did nothing to raise the bank's total capital or its financial strength.

The real significance of Citibank's move was that it was part of a plan to divest about \$5 billion of loans to developing countries by selling them to other investors, and by swapping them for equity stakes in the industries of the debtor countries. Although a secondary market already exists in such loans, it has been limited in volume and used primarily by smaller banks seeking to reduce or eliminate their lending to developing countries. Sales of such debt by Citibank would create a more active secondary market in which securitised loans are more readily tradable than they are today. With yields of approximately 15%, such loan-backed securities would be attractive to institutional and individual investors who currently have no exposure to these countries. The market in such discounted loans will also be underpinned by the borrowers themselves: they will be tempted to use foreign currency to buy in their own debt at the market's discount and



Smile, explains Feldstein

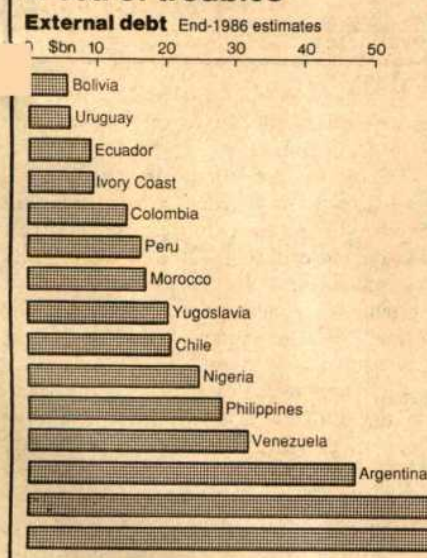
thus, in effect, repay it cheaply.

The volume of debt-equity swaps has also been small until now. It has typically involved a bank selling a loan to a company that wants to make an equity investment in the debtor country. The company exchanges the loan at the central bank for the local currency that it needs to buy the equity. In contrast, Citibank wants to buy equity investments for its own portfolio and to hold them for quite a time. By increasing the demand for equity in the debtor countries, and by negotiating a trade-off between the discount at which debt is paid off by the debtor and an attractive price for the equity paid by the bank, Citibank's new approach can substantially increase the scale of debt-equity swaps.

How does all of this fit into the long-term process of resolving the third-world debt problem? The pessimists, who have seen disaster at every turn over the past five years, were quick to interpret Citibank's announced write-down as a harbinger of a complete collapse of the debt-rescheduling process. Once again they called for government bail-outs, or government-imposed debt forgiveness by the banks, or unilateral repudiation by the debtors.

The reality is likely to be far more sanguine, especially since other banks will

A sea of troubles

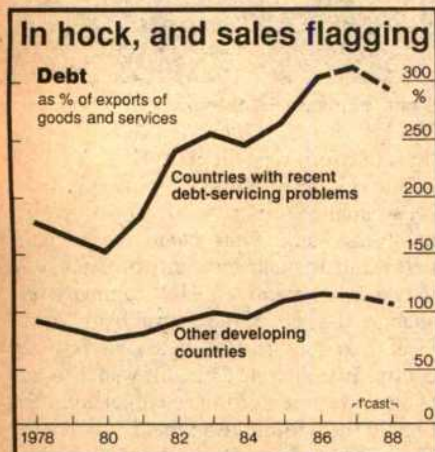


LATIN AMERICA'S DEBT

almost certainly follow Citibank in seeking debt-equity swaps and in securitising loans. The greatly enlarged volume of such swaps will boost the flow of new equity investment to debt-laden countries. The growth of an active secondary market in third-world debts should stimulate the creation of a primary bond market that will raise more money from non-banking investors. And the banks' reduced exposure to debtor countries should make them less reluctant to accept additional debt: even if the interest rate on new loans remains unattractive, the risk to the bank is inherently less if its debt portfolio has earlier been reduced.

The Citibank strategy thus helps the third-world debt problem in two crucial ways: it provides more finance to the debtor countries, and it limits the share of this finance provided by banks. Best of all, it does so by harnessing decentralised market forces, rather than government compulsion or cartels of debtors and creditors.

That is why these developments have increased my own basic optimism on the long-term chances of dealing successfully with Latin American debtors. I have been watching the debt problem closely since I joined the Reagan administration in 1982, at almost exactly the same time that Mexico announced its inability to service its debt.



After nearly five years of watching, I am convinced that it is possible to restore satisfactory rates of economic growth in the major Latin American countries—and in a way that will allow the debtor governments and creditor banks to continue to work together. Moreover, achieving those rates of growth will not require explicit forgiveness of debt by banks, nor any other radical change in the way these debts are handled.

There will, of course, be some countries for which such a co-operative solution will not work. Many African nations have never attracted loans from the private sector in any quantity. They will continue to be the wards of the World Bank and other official lenders. Some Latin American nations are so deep in debt, and have economies that



For debts, Reed equity

are performing so poorly, that there is scant hope that they will ever pay the accumulated interest on their external debts, let alone repay them when they fall due.

The banks recognise this, but they correctly reject calls by academics and politicians for explicit forgiveness of these debts. The banks know that debt-servicing is an intensely political process in the debtor countries, and that outright forgiveness of the debt of any one country would create irresistible pressures for equal treatment in other countries. Forgiving the weak would induce repudiation by the strong.

Forget, don't forgive

Fortunately, the countries likely to be permanently unable to service their debts account for only a small fraction of the third-world total, so good performance by the big debtors would be enough to assure the financial health of the creditors. It is far better for banks to accept, for now, the de facto forgiveness entailed in the non-payment of interest by Bolivia, Peru and others with weak economies than to grant de jure forgiveness and risk the almost certain pressure for similar treatment from the major debtor countries.

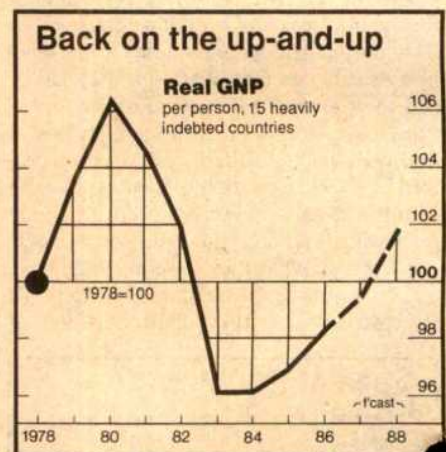
I emphasise that dealing successfully with the debt problem means providing the debtor countries with the finance they need to allow a rising level of real incomes. Unless there is a satisfactory rate of economic growth, the political pressures for unilateral debt repudiation will be uncontrollable. The political stability of Latin America and its continued allegiance to the newly established processes of democracy could also collapse if its economies fail to achieve satisfactory growth.

Growth depends, of course, on the internal economic policies of the debtor countries themselves. That is why the Baker plan rightly emphasises structural reforms. But growth also depends on countries being

able to finance capital investment and to import the equipment and materials needed for industrial development. Until 1982, large inflows of net lending from abroad permitted a lot of both. But the sharp drop in such lending since 1982, and the debtors' need to pay interest that now equals 5% or 6% of GNP, has cut both investment and imports harshly.

Gross investment in the Baker-plan group of 15 heavily indebted countries has fallen from 24% of their GNP in 1982 to 17%. Import volumes have also fallen fast: after rising at an average rate of 8% a year in the 1970s, they fell at 10% a year between 1982 and 1986.

Although the debtor countries could in theory pay for investment by reducing their levels of private and public consumption, experience in developed, as well as developing, countries has shown how hard this can be. The problem is still more difficult in debtor countries that have had no real growth in average incomes over a decade. Similarly, an increase in exports could in principle permit debtor countries to raise imports without needing new credit from abroad. But although the big debtors have boosted their exports significantly since 1982, exports are still such a small share of GNP that even if they grow very fast they



cannot offset an end to the flow of new loans from abroad.

In practice, therefore, achieving satisfactory growth in the debtor countries will require, for at least the remainder of this decade and probably well into the 1990s, a continued infusion of new capital from abroad. This means three things for the strategy of the lending banks and their governments.

- First, the international debts of the developing countries must be rolled over as they become due or be swapped for equity. There should be no repayments of principal except as part of a debt-equity swap, or through other ways in which borrowers buy in, and retire, their own loans at a discount.
- Second, the interest rates that the banks

All of these securities having been sold, this announcement appears as a matter of record only.

NEW ISSUE

\$103,500,000

Inspiration Resources Corporation

8½% Convertible Subordinated Debentures Due 2012

Merrill Lynch Capital Markets

The Essence Of Good Investment Is Applied Experience.



PFC International Portfolio Fund And RBC North American Fund.

The PFC International Portfolio Fund is a unique investment concept bringing together some of the best funds and managers available in Hong Kong and offering three investment strategies.

One of these, the Specialist Growth Fund, is invested in a wide range of international equities and has shown an increase of 128%* since launch in April 1985.

The Royal Bank of Canada's North American Fund has contributed to this performance with an increase of 45%* over the same period. As Canada's largest bank, offering a world-wide network of services, the Royal Bank of Canada is delighted to be associated with the success of the PFC International Portfolio Fund.

To take advantage of this impressive blend of funds, complete and return the coupon below.

** Figures from Financial Times bid to bid. Units in these funds may go down as well as up.*



Please send me details of the PFC International Portfolio Fund.

Mr. David Wilkie or Mr. Vincent Chan
Personal Financial Consultants Ltd.
1301 World Trade Centre,
Causeway Bay, Hong Kong.
Tel.: 5-8908448

Name: _____

Address: _____

• Phone (Office): _____ (Residence) _____



LATIN AMERICA'S DEBT

charge on new loans must be close to the cost of their funds. If the debtor countries had to pay, for additional credit, the high interest rates prevailing on their loans in the secondary market, they would either be left with too little foreign exchange to finance the imports needed for satisfactory growth or would need much more new credit from the banks. Although the low rates charged by the banks represent a substantial subsidy relative to a free-market rate, the present small spread over the London interbank offered rate (LIBOR) allows the banks to show an accounting profit on these loans. That will become a real profit when and if the borrowers regain normal access to the loan markets.

● Third, additional credit or an equivalent amount of equity finance must be extended to the debtor countries. The export earnings of the debtors are not large enough to finance both the full interest payments on their existing debts and the volume of imports needed for satisfactory growth. The debtor countries must therefore borrow (or receive new equity investments) to pay some of the interest as it accrues.

This requirement that the total volume of debt must increase does not imply that the debt will become more burdensome to the borrowing countries or that the overall quality of the banks' loan portfolios will deteriorate. Quite the contrary. The required rate of increase of the debt will be so slow that the inflation-adjusted value of that debt will remain essentially constant, and its value relative to the size and export potential of the debtor countries, and to the balance sheets of the creditor banks, will improve.

Even with only modest economic growth in the developing countries and no increase in the share of GNP that they export, debt will decline as a percentage of the debtors' GNP and of their exports. With falling debt ratios, the relative burden of servicing the debt will gradually become lighter. This helps not only the debtors but the banks too, since a declining ratio of debt to exports makes a country's loans a better credit risk. What is more, the slow growth of third-world debt would mean it declining as a percentage of the banks' capital and earnings. An increasing volume of loans is therefore not incompatible with improving the financial soundness of the banks.

The case of Brazil

An example will show how this hopeful-sounding prognosis can work out in practice. I focus on Brazil because it is currently the most troublesome of the debtor countries, but much the same analysis could be applied to any of the big Latin American debtors. With debt-rescheduling recently completed for Mexico and Venezuela, and with the Argentine rescheduling virtually finished, Brazil poses the biggest and most

Brazil's future

Hypothetical debt projections for Brazil, \$ billion: implications of limiting debt service to 2.5% of GNP

	Debt	Interest	GNP	Debt-service limit	Additional borrowing
	\$ billion				
1987	110.0	9.9	250	6.3	4.0
1988	114.0	10.3	269	6.7	4.0
1989	118.0	10.6	290	7.2	4.0
1990	122.0	11.0	312	7.8	4.0
1991	126.0	11.3	336	8.4	4.0
1992	130.0	11.7	362	9.0	2.7
1993	132.7	11.9	390	9.7	2.2
1994	134.9	12.1	420	10.5	1.6
1995	136.5	12.3	452	11.3	1.0
1996	137.5	12.4	487	12.2	0.2
1997	137.7	12.4	524	13.1	-0.7
1998	137.0	12.3	564	14.1	-1.8

Assumptions: inflation rate 4.0%, real GNP growth 3.5% a year, interest rate 9%, net additional external borrowing \$4 billion a year until 1991 (which keeps the net debt-service cost in those years at less than 2.5% of GNP, and at 2.5% of GNP after 1991).

immediate problem among the Latin American nations. Moreover, Brazil's aggressive tactic of unilaterally stopping interest payments and demanding new credits of \$4 billion a year has given its affairs an air of impending crisis.

In round numbers, Brazil's GNP is \$250 billion and its external debt is \$110 billion. Even with an interest rate of 9% on its external debt (higher than the current rate on new loans to debtor countries), its external interest bill is \$10 billion a year, or 4% of GNP. Brazil's exports earned \$22 billion in 1986, enough to pay this interest bill and have \$12 billion left to finance its imports. Unfortunately, that trade surplus is apparently not quite enough to permit a satisfactory rate of growth of income.

It is difficult to know just how much more foreign credit Brazil really needs, because the ill-managed Cruzado plan to control inflation has recently played havoc with its economy. The level of exports fell by nearly 50% between the third and fourth quarters of 1986, temporarily all but eliminating Brazil's trade surplus and prompting the subsequent moratorium on interest payments. But a generous estimate of the credit needed over the next few years was made by the former finance minister, Mr Dilson Funaro, who declared that Brazil had to limit its net debt service (ie, its required interest payments minus the amount of new credit that it receives) to 2.5% of GNP if it was to achieve an "acceptable" real growth rate of 7%. With an interest bill of \$10 billion and a GNP of \$250 billion, that 2.5% of GNP limit translates into \$4 billion a year of additional credit. Mr Funaro began his abortive negotiations with a demand for \$4 billion a year for the next five years. His successor has reduced the growth goal to only 3.5% but has not yet said how much less new credit he is aiming for.

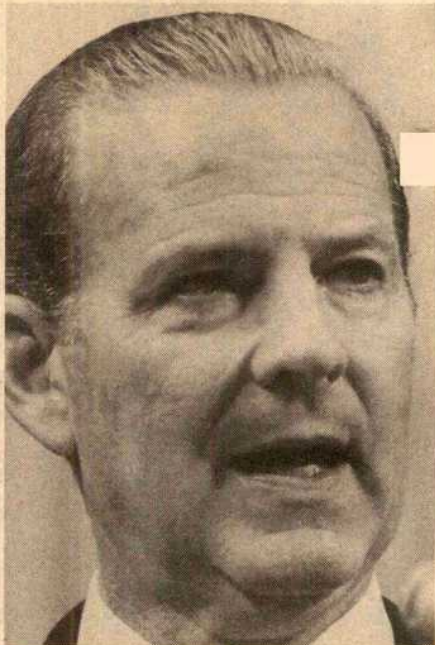
Even if one accepts Mr Funaro's insistence on \$4 billion a year, the resulting rise in Brazil's external debt would roughly keep pace with the inflationary fall of the

American dollar and keep the debt static in real terms. This means that if Brazil's real growth rate is only 3.5% a year—or roughly half what was achieved between 1950 and 1980—the ratio of Brazil's external debt to its annual GNP would be 18% lower in 1992 than it is today. In other words, even if Brazil got all the additional credit that it claims it needs, the relative size of its debt would be declining.

Looked at in a different way, limiting the net debt-service to 2.5% of GNP would require declining amounts of new net credit over time because the Brazilian economy would be growing faster than the interest on its external debt. Within a decade, the 2.5% of GNP would be enough to start making payments to reduce the outstanding debt.

If the ratio of Brazil's external debt to its GNP falls by 18% over the next five years—as it would under relatively conservative assumptions—and if interest rates remain at 9%, Brazil's foreign-interest bill will drop from the current 4.0% of GNP to 3.2% of GNP. Its need for new net credit would go down from 1.5% of GNP to 0.8% of GNP, ie, from \$4 billion to \$2 billion in today's dollars.

The table shows that with the net debt-service limited to 2.5% of GNP for another five years until 1997, Brazil would begin repaying its external debt. Such calculations are clearly unrealistically precise, but they are a useful way of showing why lending debtor countries more to support economic growth need not lead either the debtors or their creditors into a worsening financial position. Moreover, that limit of 2.5% of GNP on net debt-service payments is not an immutable constant, but Brazil's first bid in a negotiation. If Brazil increased its exports from its current meagre 10% of



Baker's plan still applies

GNP, or made more efficient use of imports, or raised its domestic saving rate, the 2.5% limit could be trimmed without impairing growth.

Note also that even though Brazil's debt would have grown by \$27 billion over the next decade, its debt-GNP ratio would have fallen from 44% to 24%, a level at which it could well be welcomed back to the market as a borrower with a favourable credit rating. The pace of improvement would be even greater if the flow of new credit was supplemented by a good measure of debt-for-equity swaps of the type now proposed by Citibank. Although the decade ahead may not be as easy as this table suggests, there is no reason why Brazil should not be able to return to being a welcome borrower while keeping up a solid rate of economic growth.

Of course, this prognosis requires sensible economic policies in Brazil. That does not mean austerity, or a remarkable upheaval in its economic policies: just avoiding mistakes of the past that squandered available credit and destroyed economic growth. More needs to be done to reduce the flight of private capital and to make equity investment more attractive to both foreign and domestic investors.

Similarly, the growth of Brazil's exports will not keep pace with the overall growth of the Brazilian economy if the rich countries of the OECD close their markets to Brazilian products. Faster OECD growth and more open markets would obviously be even more helpful to Brazil, but the encouraging scenario I have sketched out here requires only that the demand for Brazilian exports does not deteriorate.

Recent progress and future risks

The prospect for a favourable evolution of Latin America's debt looks better now than it did even six months ago. Until this spring, banks seemed unwilling to provide the additional lending necessary for sound economic growth in the debtor countries.

Despite the encouraging statements after the unveiling of the Baker plan in October 1985, the commercial banks of the world provided no net additional credit to the debtor countries until the spring of 1987. But now a new pattern of credit is emerging that is essentially consistent with the hopeful scenario.

A new multi-year rescheduling agreement was signed in April under which the Mexican debt to the banks and international organisations would increase by 3-4% a year. A similar deal for Argentina is now virtually complete. Multi-year reschedulings have also recently been concluded with the Philippines, Venezuela and Chile. Although Mr Funaro's confrontational approach, and the chaos that remains in the aftermath of the failed Cruzado plan, continue to delay serious progress on Brazil, a

package along the lines of the Mexican and Argentine deals is likely to be concluded sometime this year. When that is done, all of the big Latin American debtors will have been refinanced until the end of the decade.

There are, however, serious uncertainties that keep the outlook over these debts riskier than it need be. The most important of these is the possibility of a big rise in the level of the American short-term interest rates to which many third-world loans are tied. Such a rise in these rates would force the debtor countries to choose between a sharp reduction in growth and a moratorium on interest payments. Since all of the debtors would be hit at the same time, there is a real risk that an interest-rate jump would induce the debtors to form a cartel that abrogated the recent loan agreements. The mere possibility of this happening keeps third-world loans riskier than they would be if there was some assurance that loan interest rates would not rise from their current level.

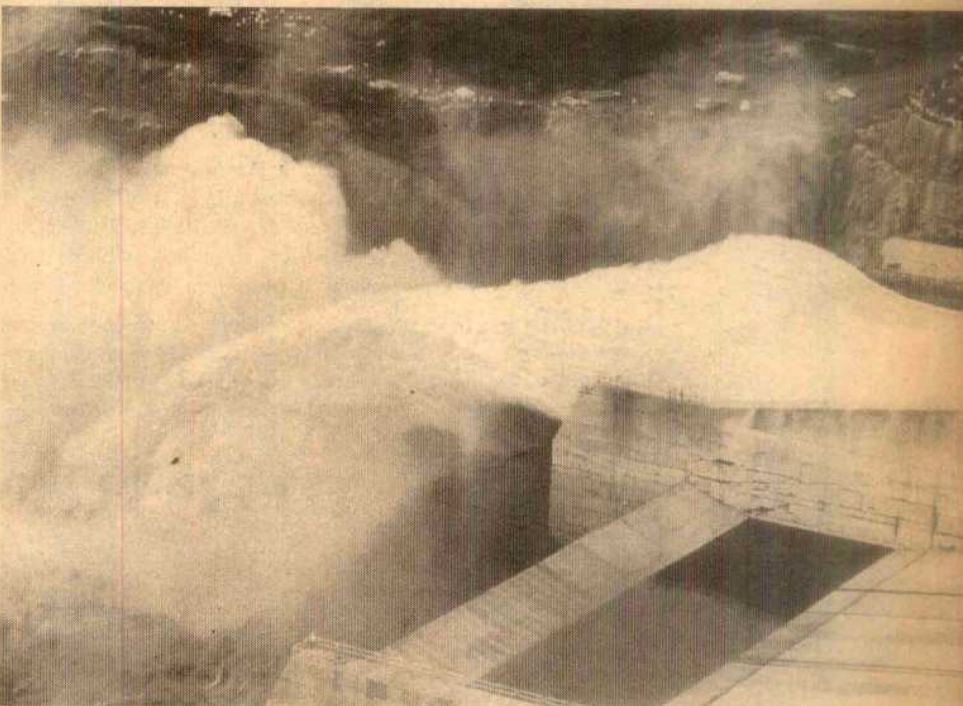
A simple way out of this interest-rate uncertainty would be to distinguish between the rate at which interest accrues on developing-country loans and the rate at which it is actually paid. The accrual interest rate could continue to vary with the market interest rate, while the payment rate could be "capped" at the level that prevails today. The difference between the accruing interest charge and the actual interest payments would be automatically capitalised and added to the value of the loan. If the rise in interest rates reflected a higher rate of American inflation, the increased bank lending would not even raise the real value of the debt or the ratio of that debt to GNP

and exports. And, at least under American banking rules, banks would be able to count the entire accrued interest as income as long as the accrual interest rate is at least as high as the market rate prevailing at the time that the loan was made.

A similar but less pervasive risk is the sensitivity of the debtors' trade balances to the price of oil. A sharp drop in the price of oil weakens the trade balances of Mexico and Venezuela, but improves those of the oil-importing debtor countries. In the recent Mexican loan rescheduling, the banks reluctantly agreed to provide extra credit if the price of oil declines below a certain level. A similar clause to protect oil-importing debtors from oil-price rises would further reduce the overall risk of Latin American loans.

Although conditional arrangements like this represent departures from traditional banking practice, they should be seen as part of the process of providing enough credit to maintain growth while the debt-income and debt-export ratios are gradually reduced. In short, they would be consistent with the creative muddling-through by which the Latin American debt problem can best be solved.

Muddling-through does not have the intellectual appeal of a neat plan to restructure liabilities and forgive debt. Nor does it have the dramatic appeal of the crisis and repudiation strategies that some would claim are just around the corner. But as of now, I will stick with muddling-through via modest increases in debt and equity as the most promising way to achieve satisfactory growth and the eventual return of the debtors to the financial markets.



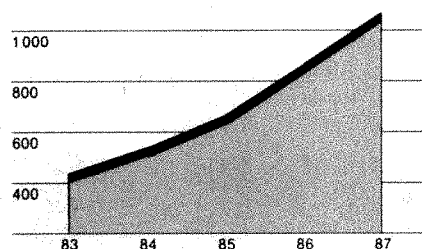
Put a dam in your portfolio

1986: ANOTHER SUCCESSFUL YEAR

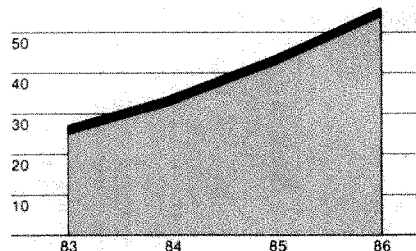
In 1986, BHF-BANK – Germany's Merchant Bank – further strengthened its position both domestically and internationally. After the outstanding achievements of recent years, the results for 1986 were especially impressive. Earnings were boosted substantially, the Bank increased its total assets to DM 13.7 billion, and Group assets reached DM 27.5 billion.

■ **Quality Performance** – Profitability increased in 1986 by 30% to DM 76 million. The largest contribution came from the service sector where net income amounted to two-thirds of interest earned. Fee income grew by almost 25%, stemming principally from brisk business in securities and underwriting. The volume of share trading alone increased by almost 50% over the previous year, and almost tripled the 1984 figure. The partial operating result reached DM 177 million – exceeding 1985's strong showing by 14.6%.

Shareholders' Equity in DM million



Total Dividend Payment in DM million



■ **Growth and Stability** – BHF-BANK increased its capital in early 1987, thus broadening its equity base still further. Today, the capital and reserves of BHF-BANK amount to DM 1.061 billion, representing 7.8% of the balance sheet total. In 1986, DM 15 million were allocated to the reserves and risk provisions were again strengthened. The results achieved in 1986 once more demonstrate the benefits of BHF-BANK's policy of maintaining growth and stability without sacrificing quality.

■ **Bonus for Shareholders** – The favourable 1986 results were reflected in the decision of the Annual General Meeting to pay a special bonus of DM 2 per DM 50 share in addition to the dividend for the year of DM 12. The total dividend payout amounted to DM 55.3 million – some 30% higher than in 1985. Soon, BHF-BANK shares will be officially quoted on the Zurich, Basel and Geneva stock exchanges. For further information about BHF-BANK, we invite you to contact us for a copy of the 1986 Annual Report.

BHF-BANK
BERLINER HANDELS- UND FRANKFURTER BANK

Germany's
Merchant Bank

HEAD OFFICE: Bockenheimer Landstrasse 10, D-6000 Frankfurt 1, Telephone: (069) 7180, Telex: 411026 (general), Telecopy: (069) 718-22 96
BRANCHES: New York · Grand Cayman · Singapore · Tokyo. SUBSIDIARIES: Luxembourg · Jersey · New York · Zurich
REP. OFFICES: Bogotá · Hong Kong · Johannesburg · London · Los Angeles · Madrid · New York · Rio de Janeiro · Singapore · Tehran · Tokyo

INTERNATIONAL

Chun feels the heat

It is getting hot in South Korea. The tear-gas lingers in the sultry streets. The students sweat as they regroup for another assault. The security police look exhausted in their armour. Both sides were glad this week to have the excuse to retreat into their sanctuaries, at least for a little while, to cool off. The excuse was provided on June 24th by President Chun Doo Hwan. He agreed to meet the leader of the main opposition party, Mr Kim Young Sam.

This, extraordinarily, was the first time in his seven-year rule that the president has talked to the opposition leader on a formal basis. Mr Chun runs his country like a monarch. His ministers defer to him like courtiers. It seems unlikely that Mr Chun wanted to see Mr Kim; the idea appears to have come from Mr Roh Tae Woo, his chosen successor. Mr Roh is not quite a courtier. He is a buddy of Mr Chun from the days when they were both generals. He is now chairman of the ruling Democratic Justice party, and the party's—and thus Mr Chun's—choice to be the next president of South Korea when Mr Chun retires in February.

The current riots began on June 10th, the day Mr Roh was nominated by his party for the presidential job. Since then his effigy has been burned in the streets on several occasions alongside Mr Chun's. This has

been distinctly upsetting for Mr Roh, who for months before his nomination had been doing his utmost in the local press to give the impression that he was Korea's best and brightest, and the man you can trust.

After watching his reputation being trampled on day after day, Mr Roh decided that enough was enough. On June 21st he chaired a special meeting of the ruling party at which he and others expressed fears that the government was unpopular not only with the students but with a lot of other South Koreans as well. Afterwards Mr Roh went to see Mr Chun to tell him that meeting force with force was only making things worse, and that he had better have a chat with Mr Kim.

Mr Chun and Mr Kim talked for three hours at the president's residence, the Blue House. The length of the meeting signifies little: all meetings between Koreans seem to go on for hours, as though it would be impolite to end them. The theme of the meeting can easily be summarised. It was about power. The opposition wants to be given a fair chance to become the government; or, as Mr Kim said at a press conference after the meeting, Mr Chun "should be prepared to risk losing power".

Under the present constitution there is almost no chance of that. The president is chosen by an electoral "college" which is

loaded in favour of the government. In earlier talks between Mr Chun's representatives and those of the opposition, he had offered to amend the constitution so that most power would lie with the prime minister, who would be chosen by an elected parliament, rather than with the president.

The opposition believes that this system would also favour Mr Chun's party. It wants a directly-elected president. At the Blue House meeting Mr Chun suggested reopening the talks on possible constitutional changes, which he had abruptly suspended on April 13th until after next year's Olympic Games in Seoul. Mr Kim said that the two sides had already talked for a year without agreeing. He asked for a choice between the two plans—more prime ministerial power or a directly-elected president—to be put to South Koreans in a referendum. "The president made no direct reply," according to Mr Kim. He said that his meeting with the president was "unsatisfactory".

"Unsatisfactory" is a relatively soft word among the insults that have been used in South Korea in the past few weeks. Mr Kim said it was "a small victory" that Mr Chun had spoken to him at all. The authoritarian Mr Chun indeed gave some ground by agreeing to the meeting; and he has given some more by offering to reopen the constitutional talks, even if this offer is turned down. A few hours after the meeting, Mr Chun gave up a bit more. He ordered the release from house arrest of the opposition's éminence grise and chief strategist, Mr Kim Dae Jung, a moderate-minded former industrialist whom the president regards as a



The cast in Seoul: obdurate Chun, budged by worried Roh, talks to Kim Young Sam and lifts his siege of Kim Dae Jung

dangerous radical, possibly because he is as obdurate as Mr Chun himself.

This second Mr Kim, joined in these views by Mr Kim Young Sam, wrote in 1985 that he would like South Korea to be a sort of West Germany, which, despite having an enemy at the gates, nevertheless manages to have political and civil freedoms. He would keep the army out of politics. He believes in a market economy, with less state intervention than there is at present in South Korea. He wants the American garrison to leave, but not until the country has been reunited with North Korea under a democratic government, which probably means never.

These are not the kind of alternative policies that should give anyone a fright. Yet Mr Kim Dae Jung, who stood for president in 1971 and believes he was cheated of the job, is under a suspended sentence for alleged subversion, which is why the government feels it is entitled to put him under frequent house arrest. How long he will be allowed the liberty he was given this week is anybody's guess.

The buzz-word now among Korean politicians is "sincerity". Previously, it is said, the president was not sincerely willing to make any progress towards democracy. Now he is. But a referendum? This would mean testing the government's popularity in a direct vote. No wonder Mr Chun did not make a direct reply.

For the first time, though, he may be feeling a mite isolated. The special party meeting on June 21st hinted that he can no longer count on automatic support for his policies. Some government politicians now say that the opposition's challenge should be accepted, that a direct presidential election should be held, and they believe their candidate will win.

Then there are the Americans, the country's saviours in the Korean war. Just how much influence the United States has on Korean affairs is debatable, but Mr Chun has had to take note of a letter sent to him by a worried President Reagan. Mr Reagan's envoy, Mr Gaston Sigur, has been in Seoul this week talking to Mr Chun about the merits of democracy. Pyromaniacs bored with putting effigies to the stake turned to burning the Stars and Stripes.

President Chun's weakness is that he is being seen in Korea as reacting, tardily, to events, instead of anticipating them. This year he has tried to appease his critics by first sacking his police chief and then his prime minister and much of his cabinet. But it is Mr Chun's carcass the wolves want, and they are determined to howl him out of office if they can. Can he last until February, becoming the first South Korean president to hand over power peacefully, or will he be overthrown in a coup, as he overthrew his predecessor? The fact that this question is even being asked in South Korea

is a measure of the seriousness of recent events.

At the end of the week another "peace march"—the euphemism for the start of a riot—was due in Seoul. Mr Kim said the results of his meeting with Mr Chun were not sufficient to call it off. Temperatures are in the eighties. And summer has hardly begun.

Gulf war

Adrift in the minefields

Forked tongues were fashionable in the Gulf this week. After the Iraqis' attack on a Maltese tanker on June 20th, they claimed, with the usual hypocritical vagueness, that their aircraft had hit a "naval target". The Iranian prime minister, Mr Hussein Mousavi, promptly denounced them for breaking "a month of calm in the Gulf".

True, no ships had been attacked by either country's air force since the Iraqis' blundering assault on the American frigate *Stark* in May (and on June 24th, when the Iraqis hit a Turkish ship, they seemed abnormally hesitant about reporting it). But during the "month of calm" four ships had struck mines laid near Kuwait—evidently by the Iranians, whose now bitter hostility to Kuwait was reflected in Mr Mousavi's statement. The Iranians, he asserted, had evidence that that day's Iraqi attack had been made "with the help of facilities provided by Kuwait".

An American official said on June 23rd that Saudi Arabia had agreed to help in detecting mines laid off Kuwait's coast. The Soviet Union, whose chartered tankers are bringing some of Kuwait's oil out, has sent two minesweepers to the Gulf. On June 22nd Kuwait's oil minister said that the

Russians had also expressed willingness to take some of its tankers under the protection of their flag, as the Americans already propose to do.

However much tacit co-operation between the two superpowers is implied by all this, "tacit" and "implicit" are still the words to watch. Mr Yuli Vorontsov, the Soviet first deputy foreign minister who visited Iran last week, was reported by his hosts to have told them that Russia had "no common interests with the United States in any part of the world". If he did say that, he was not believed; a Tehran broadcaster commented that the apparent differences between the two powers were "a mere façade". The Iranians must have been confirmed in their scepticism when Mr Vorontsov arrived in Iraq two days later and, according to Baghdad radio, assured their arch-enemy President Saddam Hussein that the Soviet government fully agreed with him about the need to halt the Gulf war.

At the United Nations, where the long-awaited Security Council resolution on the war seemed to be nearing the end of its elephantine gestation, an American official felt able to describe the Russians as "surprisingly co-operative". But Mr Michael Armacost, an American under-secretary of state, could report agreement among the council's five permanent members (America, Britain, China, France and Russia) only on a call for a ceasefire and withdrawals from occupied territory. Iran, which ignored a similar UN appeal last year, said this week that it would ignore a new one.

Nor would such a resolution satisfy Iraq and its Arab League supporters. They have been lobbying all the council's 15 members, arguing that an arms embargo and other international sanctions must be invoked to bring Iran to end the war. But the Americans' original aim of getting the council to vote for an arms embargo—the bite needed



Is that a UN resolution coming?

Shaken sheikhs at the tip of Araby

Palace coups are almost an institution in the hereditary sheikhdoms of the Gulf. The current rulers of Oman, Qatar and Abu Dhabi all got their jobs through one, as did the last-but-one Saudi king. But the fashion is changing. A coup on June 17th in Sharjah, one of the seven members of the United Arab Emirates (UAE), has ended with the deposed ruler, Sheikh Sultan al-Qasimi, safely back in his job.

Sultan, a scholarly and unworldly man, was accused by his brother, Sheikh Abdul Aziz, of economic mismanagement. With good reason. Since taking power in 1972 he has saddled Sharjah with debts estimated at \$1 billion through a lavish construction programme out of all proportion to his state's modest revenues from sales of oil and gas. Abu Dhabi, the most powerful UAE member, grew tired of picking up the tab for Sharjah's extravagance. It stopped paying interest on one of Sharjah's bank loans in 1985, just before the collapse of the oil price plunged its small neighbour into new trouble.

The cooling of relations with Abu Dhabi worried the other members of the al-Qasimi family. So did Sultan's spendthrift habits, which kept them short of money. His abrupt decision to ban alcohol in 1985 made Sharjah the only dry state in the UAE and killed off its budding tourist industry.

Some critics saw the ban as evidence of excessive sympathy for Iran. Sharjah, like Dubai, has long had close trading links with Iran. But Sultan was also criticised for being too liberal: one of Abdul Aziz's first acts after seizing power was to close down the *Al Khalij* newspaper, the most outspoken in the Gulf.

Managing to upset both his own family and Abu Dhabi should, by past standards, have been enough to secure Sultan's removal. Hereditary Gulf rulers are chosen by their families, rather than succeeding by right, so the family's opinion counts. Why, then, did the coup fail? Abdul Aziz—a businessman with a better grasp of economics than his brother has, a personal friend of the Abu Dhabi ruling family and a man without any of Sultan's awkward ideas—was well placed to succeed Sultan. He persuaded Abu Dhabi to broadcast an alleged abdication statement by Sultan while his brother was abroad. It all seemed a fait accompli: until Dubai intervened.

Dubai convened a meeting of the UAE's Supreme Council, by announcing that Sultan had been deposed and calling on the council to support him. It took three days for the council to do so and even longer to negotiate a face-saving compromise with Abdul Aziz. He emerges with the title of



crown prince, a seat on the Supreme Council and more executive power. But, formally, the coup has been squashed.

Dubai's traditional rivalry with Abu Dhabi was one reason for its stand. It may also have been piqued about not having been consulted. But, by taking the matter to the Supreme Council, Dubai seemed eager to set a precedent. Henceforth, legitimacy is likely to count more when Gulf rulers are under pressure than it used to. Dubai's own crown prince is outshone by one of his younger brothers, while Abu Dhabi's crown prince has suffered a stroke. The Sharjah saga should reassure these princes. Still, it is sad to see the end of another desert tradition.

to make any resolution effective—now seems in abeyance, at least for the time being. China appears to have threatened to veto that move, although it still denies having sold Iran the Silkworm missiles whose deployment may soon make ships' passage through the Gulf more perilous than ever.

Peru

Blame it on Castro

OM OUR SOUTH AMERICA CORRESPONDENT

Peru's president, Mr Alan Garcia Perez, has never hidden his low opinion of Mr Luis Alva Castro. For the past two years Mr Castro has combined the posts of prime minister and economy minister, thanks to his powerful position in the ruling American Popular Revolutionary Alliance (APRA). Like him or not, Mr Garcia needed to hold on to him. For 18 months, as inflation came down and Peru's economy enjoyed a rare burst of growth, Mr Castro shared some of the young president's popularity. Now, with prices rising again and labour unrest exploding, Mr Garcia wanted his prime minister to carry a good share of the blame.

Mr Castro thought otherwise. He hopes to become APRA's candidate for president

in 1990, when Mr Garcia will be barred from succeeding himself. Knowing the president would do everything to stop him, he had to cultivate the party; and to do that he had to return to his seat in Congress. As rumours of Mr Castro's imminent resignation spread last weekend, the president proclaimed that "there will be no resignations [because] anyone who retreats is a traitor". On June 23rd, apparently more worried about survival than betrayal, the prime minister resigned. The entire 16-man cabinet went with him.

The fact that Mr Garcia paused before naming a successor shows that he was taken by surprise. That he was leaning towards Mr Luis Negreiros Criado, APRA's secretary general, suggests he views his difficulties as political rather than economic.

The economy is certainly in trouble—only last week, the Central Bank president, Mr Leonel Figueroa, was obliged to resign after the free-market rate of the dollar against the inti suddenly rocketed—yet there is no reason to believe the government shake-up will make much difference. Mr Castro was more worried about the rising public deficit than the president was, but in the end he merely carried out Mr Garcia's policy of limiting the country's foreign-debt payments and channelling resources into the domestic economy. And in the view of many economists, he did so without dis-



Alan alone

playing much talent.

The cabinet shake-up has nonetheless come at a bad time. Last month, the Garcia administration faced its first successful general strike. It has also had to call out the troops when policemen went on strike, and strikes by civil servants have become almost the norm. The first anniversary this month of the army's massacre of some 300 jailed guerrillas served as an unhappy reminder that a promised investigation into the

slayings has never been completed; and the Shining Path's Maoist fanatics continue to cause havoc almost at will.

The president's relations with the armed forces are tense, not only because he has cut their budget but also because he insists on asserting civilian authority over soldiers long used to near-freedom. Even the anti-drug campaign, the only good thing the Americans have to say for Mr Garcia, appears to be faltering.

But the president still dominates Peru. The non-violent left is badly divided, the conservatives are weak and, volatile though he is, Mr Garcia remains the only serious democratic alternative to rule by generals. Now just two years through his five-year term, however, he cannot count on preserving his popularity (for a new bid for the presidency in 1995) unless he can bring the economy round. That might require the short-term humiliation of actually talking to Peru's angry foreign creditors and making up with the International Monetary Fund. The change of his economics team gives him that opportunity. And, for a while at least, he can blame Mr Castro.

Lebanon

And Syria can't do it either

FROM OUR LEVANT CORRESPONDENT

Syria's attempt to impose some sort of order on the chaos of Lebanon is facing its biggest challenge since President Hafez Assad's soldiers trundled wearily back into divided Beirut last February. The men who abducted Mr Charles Glass, an American journalist, on June 17th were almost certainly Shia Muslim extremists belonging to the Iranian-backed group Hezbollah, the "Party of God". Earlier this month a bomb killed Rashid Karami, the Sunni Muslim prime minister. If the men who planted it were Maronite Christians, as many Muslims assume (though in the murk of Lebanon they could be wrong), Syria's policy in Lebanon is being squeezed from two opposite sides.

Mr Glass's abduction delivered a harder blow to Syrian prestige than his kidnappers

intended. It was clearly no accident that he was grabbed in broad daylight only a few hundred yards from a Syrian army checkpoint in Beirut. But the kidnappers were taken by surprise by the insistence of his companion, Mr Ali Osseiran, the son of Lebanon's (Shia) defence minister, that he be taken into captivity with Mr Glass. Mr Osseiran and his driver, but not Mr Glass, were given their freedom on June 24th. By then the episode had exposed the limits of Syrian power in Lebanon.

Mr Assad is said to have ordered his commanders in Lebanon to do everything they reasonably could to rescue the kidnapped men. The Syrians persuaded their local Shia protégés, the militiamen of Amal, to fire into the Hezbollah strongholds in Beirut's southern suburbs. But Amal, split into several factions and militarily weaker than it was a couple of years ago, is unlikely to take on Hezbollah in earnest.

If Syria wants to clear out the Hezbollah areas of south Beirut, its own army will have to do the job. Syrian soldiers have already started to edge cautiously into these districts. In Hezbollah's other area o

The rival who should be an ally

FROM OUR INDIA CORRESPONDENT

Mr Vishwanath Pratap Singh is probably India's most popular politician. That does not mean he has much of a chance to replace Mr Rajiv Gandhi as prime minister, unless the troubles of Mr Gandhi and his Congress party take on a new dimension. But the reasons for the popularity of V.P., as he is almost universally known, suggest why he would be a useful ally for Mr Gandhi if the prime minister were ever to steel himself for a fight with the worst elements in the ruling Congress party.

At present, Mr Singh is busy building up his already considerable support out in the states. He has just visited Uttar Pradesh, Bihar and West Bengal, and will soon drop in on Maharashtra and Goa. They love him everywhere. In Bihar the crowds are said to have gone "virtually berserk" when Mr Singh arrived to speak to them. That was on June 18th, when a gloomy Mr Gandhi was presented with the news that his party had been devastated in the Haryana state election, winning only five seats out of 90.

The prime minister has made life hard for Mr Singh. He stripped him of his job as finance minister in January, because Mr Singh's vigorous anti-corruption campaign was offending too many party hacks and business friends. Never mind that Mr Singh had cut income-tax rates in 1985-86, yet still managed to increase tax revenues because part of the black economy turned white and the finance ministry cracked down on tax evasion in the part that did not.

After being kicked out of the finance

post for doing a good job, Mr Singh was made defence minister—but lasted for only three months. He departed from that position, too, when he began investigating corruption in defence contracts. Since then Mr Gandhi has hinted vaguely that Mr Singh wants to "destabilise" India, and has talked of treachery; but the prime minister has not attacked his recent ex-minister by name.

In return, Mr Singh has been cool but correct with Mr Gandhi. He too has



V.P. is poetic, princely and popular

named no names in his criticisms of the government's failure to tackle corruption. Still, his speeches are lively. When he asked an audience in Bihar (India's poorest state) whether Indians with bulging Swiss bank accounts should be brought to justice, they roared their approval. In their thousands they raised their hands to declare that they owned no pots of money in Switzerland.

Mr Singh, a man of princely origin who writes poetry, refuses to say what he wants to do next. He has just refused to gang up against Rajiv with Mr Arun Nehru, the prime minister's estranged friend and cousin. Mr Nehru had thought he might persuade Mr Singh to oppose Mr Gandhi's candidature for the forthcoming presidential election: no, thank you, came the answer. Mr Singh also refuses to court the opposition parties, making it clear that he will not leave the Congress party unless he is kicked out of it. Some old-guard Congressmen have called for that, but so far they have been shouted down.

Mr Singh is plainly of prime ministerial calibre, and a small band of Congress people who dislike the way Mr Gandhi has been moving in the past year or so would like to see him take over the job. But the powerful old boys dislike him intensely, and even if Mr Gandhi turned against them Mr Singh is the last man they would back as an alternative. Of course, Mr Gandhi might yet be reconciled with Mr Singh. They started out with the same ideas about running the country: the main one was to keep India's businessmen legal, profit-making and out of politics. Mr Gandhi still says he wants to achieve that. Back in office, Mr Singh could powerfully help him.



Well, it's one way to police a civil war

length, the part of the Bekaa valley near Aalbek, the Syrian army has imposed restrictions on the activities of Hezbollah and other pro-Iranian Shia groups. But the open countryside of the Bekaa is very different from the maze of Beirut's southern slums. A battle against Hezbollah in the capital would be desperate and bloody.

Hezbollah's prompt release of Mr Osseiran suggests that it would like to avert a Syrian attack. Sooner or later, however, an armed clash between the Syrian army and the pro-Iranian Hezbollah seems likely. Hezbollah holds most if not all of the 29 western hostages in Lebanon. Mr Assad needs the international cheers their release would bring, but Hezbollah is not about to hand them over for the asking. The longer the Syrians flinch from an armed rescue, the more their credibility as law-enforcers will diminish. An attack may come: there are signs that Syria may be moving slowly towards a reconciliation with Iran's enemy, q.

The killing of Mr Karami on June 1st presented Syria with another grave challenge. Mr Assad wants to nudge Lebanon towards a political settlement, because he will otherwise have to go on policing a civil war indefinitely. Many people in the Sunni Muslim community to which Mr Karami belonged are convinced that he was killed by Lebanese army men working on behalf of the Maronite Christian militia. The Sunnis complain that an investigation into his death has turned into a cover-up. They say there is little chance of bringing the culprits to justice, because the prime minister was killed in a helicopter flying over the Maronite area north of Beirut.

Both episodes are painful reminders to Mr Assad that Syria's writ runs only so far in Lebanon. Mr Karami's death and the

growing challenge from Hezbollah seem to show that the brave hopes of not so long ago, that Syria would succeed where so many others have failed, have been frustrated by Lebanon's singular ghastliness.

Hongkong

I didn't say it

FROM OUR HONGKONG CORRESPONDENT

Claiming to have been misquoted is a favourite device of politicians the world over who want to reverse a policy—or try it out on public opinion. Mr Li Hou, China's second-highest official dealing with Hongkong, availed himself of it on June 23rd. He said a reporting error had been to blame for his statement a week earlier that China would view direct elections in Hongkong next year as a breach of "the spirit" of the Chinese-British agreement on handing the territory over in 1997.

This explanation is implausible: Mr Li's original remark appeared in an official Communist publication, *Outlook* magazine, after he himself had checked the final draft. The sideways retraction may have sent the Hongkong stockmarket up by 70 points in one day, but it has done nothing to relieve Hongkong's anxiety about China's intentions.

Neither has a meeting between Hongkong's governor, Sir David Wilson, and the Chinese foreign minister, Mr Wu Xueqian, which took place a few days before Mr Li's retraction. Mr Wu, making his first visit to Hongkong, is the most senior Chinese official to have called there. Their fleeting rendezvous at Sir David's New Territories lodge near the Chinese border gave Mr Wu the opportunity to hammer home two

themes that he had earlier expounded to Sir Geoffrey Howe, the British foreign secretary.

The first is that Britain should not hold direct elections to Hongkong's Legislative Council next year. The second is that Britain's own thinking about how to change Hongkong's political set-up should bend to China's slower timetable for consultation with Hongkongers about political reform. Sir David presumably reminded Mr Wu that the British cannot run their policy according to China's calendar without causing a serious loss of confidence among Hongkongers. That would do nobody, including China, any good.

Mr Li's clumsy retraction shows that the Chinese are at least aware that his original statement damaged Hongkong's already bruised faith in China (a conclusion they were helped to reach by unofficial soundings carried out earlier in the week by Communist officials in Hongkong). But the Chinese do not seem to think that Mr Li was wrong in the first place. They have by no means abandoned their campaign against direct elections.

This could be hurting China's position in Hongkong more than it realises. A glance at the streets of Seoul, Taipei and Manila shows that other East Asian countries are having a rougher time managing the move to democracy than Hongkong has had—so far. China's obsession with who introduces what kind of elections risks changing that. It would do better to think about something deeper: how to build up Hongkong's confidence enough to put some reality into the slogan "One country, two systems"—and to get good people, the sort worth electing, to stay on in Hongkong after 1997.

Bahamas

Go to hell

Brushing aside charges of corruption, Sir Lynden Pindling won his sixth term as prime minister of the Bahamas in a general election on June 19th. The opposition Free National Movement (FNM) promptly accused him of rigging the vote, which gave 31 seats to his Progressive Liberal party and 16 to the FNM; two independents also won seats. The FNM held a protest rally in Nassau on June 23rd and said it would take its case to court and, if necessary, to the streets: demonstrators on North Andros island surrounded a police station and telephone exchange. Sir Lynden's troubles are not going to go away.

Critics say that some pensioners and government employees were intimidated into voting for the ruling party, and that many Pindling supporters voted more than once. They charge that 130,000 ballot papers were printed for an election in which



Uncle Lynden

there were about 100,000 voters, and that the rolls were full of errors. Still, the prime minister has received balm from an unexpected source: the American State Department. It conceded that there were some administrative problems on polling day but

said the election appeared to have been conducted fairly.

The Americans would like to have seen a victory by the opposition, which campaigned against drugs and corruption. They think some of the people around Sir Lynden are soft on the cocaine traffic that passes from Colombia through the Bahamas' 700-odd islands and on to Florida. About 40% of South American cocaine bound for the United States is said to be trans-shipped through the Bahamas. Lower-level Bahamian officials help the American Coast Guard a lot; some others do not.

Sir Lynden has responded to American pressure by talking of "unwarranted, unwanted and unwelcome interference". He has also accused the pro-American FNM leader, Mr Kendal Isaacs, of "substituting bootlicking for international relations and Uncle Tomism for foreign policy". At a post-election press conference Sir Lynden's deputy, Mr Clement Maynard, said simply that Americans who complained that Bahamian politicians were crooked and involved in drugs could "go to hell".

The record is bad. From 1979 to 1982 Mr Carlos Lehder, a Colombian drug baron now held in the United States, was allowed to operate from the Bahamas' Norman Cay, which has an air-strip. At the same time, a fugitive and free-spending American financier, Mr Robert Vesco, was allowed to live undisturbed in the Bahamas.

An independent Bahamian commission reported in 1985 that one cabinet minister had taken money from known drug-smugglers and another had been a front for a *mafioso* "whether he realised it or not". Both men stepped down, but stepped back up again as candidates in last week's election. The commission found that Sir Lynden, who has built himself a mansion, had received numerous gifts and loans, and could not explain the origin of one payment of \$240,000; but it found no evidence that the money had anything to do with drugs.

The prospect of another bout of Pindlingism worries a lot of Bahamians. If the courts rule against the opposition, which then takes its case to the streets, the sleepy islands could awake with a bump.

A word from their sponsor

Russian pockets, like other people's, have bottoms to them. This week, while Mr Mikhail Gorbachev was preparing for a showdown with his comrades over his plans to reform the Soviet economy, one of his chief lieutenants, Mr Yegor Ligachev, was chairing a special conference about Russia's ne'er-do-well dependants. The Russians would like to find some way to make three of their third-world client states, Vietnam, Mongolia and Cuba, adopt the reforming habit.

All three are members of Comecon, the Soviet-led economic organisation, and between them they get two-thirds of all the aid it provides; yet all three remain economic basket-cases. Mr Ligachev's aim is to get them to use the aid more sensibly. He was not threatening to cut it off; the Russians seem to accept that more cash will have to be provided simply to keep the three countries going.

Vietnam is the worst of the bunch. Mr Gorbachev, who has in the past spoken publicly about its squandering of Soviet aid, recently met its new party boss, Mr Nguyen Van Linh, in Moscow and again brought up the "weaker aspects" of the economic links between the two countries.

In the current five-year plan (1986-90), the Russians have promised to double their aid to Vietnam. Last December they disclosed that economic aid is now running at \$2.5 billion a year. On top of that comes the military aid which helps Vietnam to keep its army of occupation in Kampuchea; this is thought to have been running at \$1 billion a year since 1980.

Soviet support for Vietnam's occupation of Kampuchea is a big obstacle to better

relations between Russia and China. In urging Vietnam's new leaders to focus their minds on their economic problems, Mr Gorbachev may also hope that if they do so they may start moving towards some compromise on Kampuchea that would get him off that hook. But Mr Nguyen Van Linh, just like Mr Gorbachev, has to contend with diehards at home.

Farther north in Asia, Mongolia runs an economy that depends almost entirely on Russian patronage. In the five years up to 1986 it soaked up an estimated \$3 billion of Soviet aid—\$300 a year for each of its 2m people. There are about 35,000 Soviet advisers in Mongolia, and Soviet-backed projects account for 80% of its exports. Mr Jambyn Batmunkh, who came to power in 1984 with more than a little Russian help, is in no position to refuse to co-operate with his mentors in Moscow. Although Mr Gorbachev's attempts to woo the Chinese have now led him to withdraw 11,000 of the Soviet troops stationed in Mongolia, more than 60,000 are still there.

Half a world away, even Cuba's Mr Fidel Castro, who still has the nerve to thumb his nose at Mr Gorbachev, may soon have to change his ways. True, under an agreement signed last year, Cuba is to receive \$3 billion in new credits for 1986-90, a big increase over the previous five years. But now Russia is reducing some of the huge subsidies that have been propping up the island's feeble economy.

Last year Cuba had to pay the same price for Soviet oil as it did in 1985, despite the intervening fall in world oil prices. The Russians still pay an artificially high price

for Cuban sugar—so artificial that the subsidy amounted to an astonishing \$3.5 billion in 1984—but they have cut the price from 915 roubles a tonne to 850 roubles a tonne until 1990. Aid for big industrial projects has also been reduced, because Cuba has not completed the ones the Russians have already paid for.

Last year Mr Castro abruptly ended a series of reform experiments, including ones that allowed farmers to sell produce on private markets and gave incentives to factory workers. He prefers to rely on whipping up ideological fervour as a means of getting Cuba out of its difficulties. This week's conference in Moscow was a sign that Russian patience with the likes of Mr Castro is wearing thin.



If you say so, boss

AMERICAN SURVEY

The pain of buckling up the Texan budget belt

AUSTIN

Hard times have brought hard politics to Texas. After feuding for 20 weeks over a two-year budget for 1988-89 and a tax bill to finance it, Texas's legislature came to the end of its session on June 1st without resolving either issue. The governor, Mr Bill Clements, immediately summoned the members back to Austin for a 30-day special session that began on June 22nd.

At the circumstances that produced the deadlock have not changed. The state remains in an economic bind that has depleted the treasury, and the legislature remains paralysed by political divisions. With the new fiscal year scheduled to begin on September 1st, officials have ten weeks before the state-financed schools and the government offices will start to shut down.

In the years when the price of energy was high, Texas enjoyed record budget surpluses of as much as \$3 billion. But when oil drilling began to fall off in 1983, so did the state's tax revenues. Spending was cut, in places where it could be. Texas's 37 colleges and universities (more than in any other state) had their funds cut by almost \$700m during 1985 and 1986. But despite the belt-tightening, Texas approaches the end of the current budget period with an unforeseen deficit of more than \$1.1 billion. And it is obliged, by law, to balance its budget.

Texas's tax structure remains dependent on oil. Severance taxes are still one of the main sources of revenue, along with taxes on retail sales and on petrol. Texas has no income tax, either on companies or on individuals, and its sales tax does not apply to food or most services. To make matters worse, as the state has grown poorer, people have demanded more of government. Enrolment in private schools is down throughout Texas; public-school enrolment, being free, is up. Crime has gone up, and so has the prison population. Unemployed oilfield workers have been added to the public assistance rolls. These factors have combined to create a budget shortfall—the amount needed to keep services at current levels—of \$6.5 billion for 1988-89. A tax bill to make up the difference would be by far the largest in Texan history.

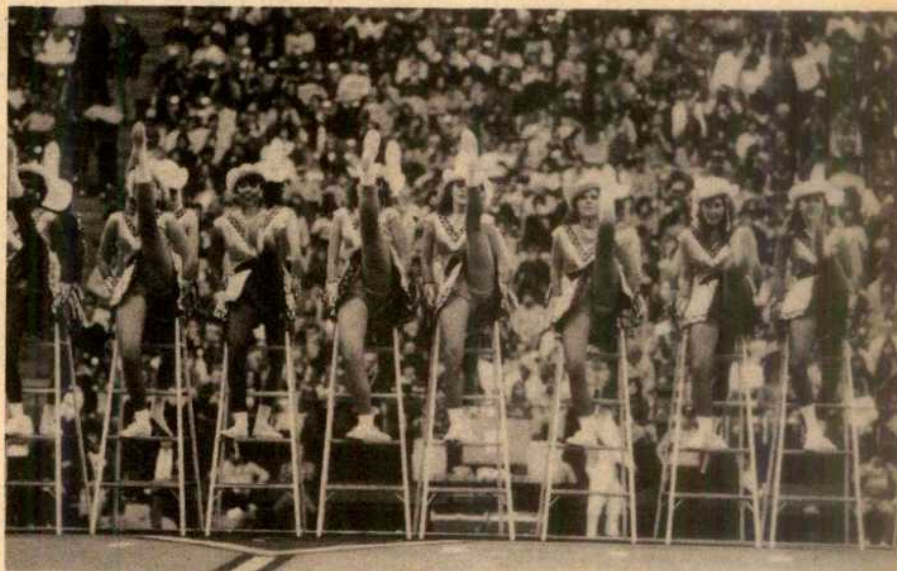
Solving the fiscal crisis would not be easy even if the political climate were harmonious. In fact it is poisonous. Mr Clements, a Republican, unseated the Democratic governor, Mr Mark White, last November after a bitter campaign in which Mr Clements vowed to veto any tax increase. Mr White had made the same vow four years earlier in unseating Mr Clements, only to break his promise when the economic slump began.

The leading Democrat in the state is Lieutenant-Governor Bill Hobby, the presiding officer of the Senate, who stands ready to take on the job that Mr Clements has already said he will leave in 1990. Last autumn, Mr Hobby was the leading advocate of raising taxes. Now he wants to raise them again and, at the same time, overhaul the tax structure. For Mr Hobby, cutting services is unthinkable in a state that ranks low by almost any measure (for example, 49th among the 50 states in the main welfare programme, Aid to Families with Dependent Children). Mr Clements, on the other hand, remains insistent that the legislature must make do without a tax increase. He modified his position earlier this year by agreeing to an extension of the temporary taxes passed last autumn, but says that that

is as far as he will go. The two sides remain at least \$3 billion apart.

Republican strategists had hoped that by standing firm on taxes, Mr Clements would oblige the Democratic legislature to cut the budget while appearing to be a fiscal hero. But the deficit has turned out to be so huge that neither Democratic nor Republican legislators could vote for the huge cuts that would be necessary. Meanwhile, Mr Clements has been embarrassed by revelations that he covered up an investigation into under-the-table payments to football players while he was chairman of the board of Southern Methodist University. His strategy is in a shambles, but no alternative has been suggested.

To raise the kind of money that is necessary, the legislature must choose from three options. One is the dreaded income tax. Another is to expand the sales tax to include services offered by lawyers, doctors, accountants and estate agents, all of whom have powerful lobbies. Mr Clements will probably veto either of these, and there are now just enough Republicans in the House of Representatives to uphold his veto. The third possibility is a deal, some neat device that would delay the day of reckoning until the 1989 legislative session. The latest suggestion is to pay for new roads by issuing bonds, and then use money currently in the highway budget for education. But this option is opposed by conservatives, and the \$3 billion bond issue would require a referendum. Thus the impasse that began in January continues in June.



High kicks, low education spending •

Iran-contra affair

North's next act

WASHINGTON, DC

Lieut-Colonel Oliver North has succeeded, more or less, in setting his own terms for his top-of-the-bill performance at the Iran-contra hearings. Colonel North, who has been given limited immunity, will start giving evidence in public on July 7th; he will first testify briefly in private on July 1st. Members of the investigative committee, muttering of precedent and prerogative, had been outraged at the colonel's impertinence in dictating terms. But their need to hear what he has to say, and their desire to get home in August, were stronger than the Colonel North's fear of being cited for contempt. After a long wrangle with his lawyer, the committee sternly instructed the colonel to do, pretty much, what he had been demanding to do in the first place.

Colonel North was given no firm promise on time limits, but he has been assured that

he will not be required to give evidence in public for more than a week and will not be called back later on. He will be questioned in private only on the extent of President Reagan's knowledge of the diversion of profits from the Iranian arms sale to the Nicaraguan contras. He will be able to get his story across before his former boss, Rear-Admiral John Poindexter, gives evidence publicly (though the admiral has testified in private already). And he will have a chance to make a bid for sympathy before the special prosecutor, whose legality he is challenging (see below), is ready to pounce.

It was half a year ago that Colonel North, a fine actor lost to the stage, movingly protested his desire to tell the whole story. Since then, with the prosecutor on his trail, he and his lawyer have been dodging and feinting. Enough has been said by other witnesses, including those who revere him, to show that the colonel is in bad trouble. The prudent defence, for a vigorous lawyer, is to limit his client's time on the stand, juggle the dates, cut down the chances of

perjury, challenge the law, kick up the dust.

The latest evidence against Colonel North looks black. When the hearings restarted this week, the committee heard testimony suggesting that he had committed a federal crime by accepting a large gift, and then made matters worse by devising an elaborate cover-up. The evidence came from Mr Glenn Robinette, a security consultant who used to work with the CIA; his speciality was false documents. He was hired by General Richard Secord in May 1986 to install a security system at Colonel North's house. The system cost \$13,900 and Mr Robinette took \$2,100 for himself: the money was paid by General Secord, some in cash and some from the Swiss bank that held the profits from the Iranian arms sales. In December, when the fat was in the fire, Colonel North telephoned Mr Robinette about the bill. There followed an exchange of phoney backdated bills and letters, cunningly crafted to look genuine. Committee members who have used their time to defend the colonel's tattered reputation could not do much with that.

Sniping at the prosecutors

WASHINGTON, DC

Is that curious animal, the special prosecutor, constitutional? With several well known people under investigation, and quite likely to be charged, the question is timely. This week it was put to the Supreme Court by the lawyer representing Mr Michael Deaver, a former White House deputy chief of staff, who is one of the few people to have been indicted as a result of a special prosecutor's investigation.

Since the Supreme Court's current session is about to end, the justices, if they follow their normal practice, will postpone deciding whether to hear Mr Deaver's appeal until their next session in October. It is just possible that they could decide on a special sitting, given the importance of the case: in addition to Mr Deaver, who is due to be tried on five counts of perjury on July 13th, Lieut-Colonel Oliver North is challenging the institution's legality and the Justice Department is at loggerheads with Congress over the issue. There is a precedent for a special sitting: in July 1974 the court found time to decide that President Richard Nixon should hand over his tapes.

The office of special prosecutor is a Watergate legacy, part of the 1978 Ethics in Government Act. To guard against conflicting interests or lack of investigative zeal, the attorney-general can call on a three-judge panel to appoint, and supervise, a special prosecutor (euphemistically renamed an independent counsel in 1982) to investigate allegations of wrongdoing by senior government officials and to conduct the prosecution against them if they are

indicted by a grand jury. Unless renewed, the law which authorises all this will expire at the end of this year (though that would not affect any investigations started before then). Congress is in the process of passing legislation to make the procedure permanent. Opposition comes from the Justice Department, which claims, as do Mr Deaver and Colonel North, that the law conflicts with the constitutional separation of powers: the special prosecutor is responsible to the judiciary rather than to the executive.

Mr John Bolton, an assistant attorney-general, did not stop there. It fell to him to give the Justice Department's views, recommending a presidential veto if the bill is passed; his boss, Mr Edwin Meese, who is under special-prosecutor investigation for his alleged links with Wedtech, a bankrupt defence contractor, was obliged to excuse himself. Mr Bolton launched into his subject with so much vigour that even the White House found his remarks "intemperate". Special prosecutors, he complained, poked their noses into "every technical, picky little concern" with the result that they, and above all Mr Lawrence Walsh, the special prosecutor in the Iran-contra affair, spend much too much money and live high on the hog.

Mr Walsh, a magisterial figure apparently unburdened by his 75 years, carries on regardless, toiling in tandem with the grand jury that hears the evidence he and his team of lawyers are fast accumulating on all the laws that may have been broken in providing arms for Iran and the Nicaraguan contras. In the days when the admin-



Walsh is unmoved

istration was protesting that all it wanted was to get to the bottom of the mess, Mr Walsh was given parallel authority by the attorney-general to protect him from legal challenge. This authority is now dismissed by the challengers as a sham, without substance.

For times have changed. Mr Walsh's brief is far wider than anything given to his predecessors, and he has shown a disposition to broaden it still more. Special prosecutors had been regarded, on the whole, as a means of clearing public figures suspected of criminal activity. Now quite a few well known people are running scared.

The budget

It takes three to tango

WASHINGTON, DC

Congress faces a hot summer of skirmishing over the budget for the next fiscal year, which begins on October 1st. A sure sign of how divided politicians remain is a recent spate of proposals to revamp the budget-writing process, including President Reagan's renewed plea for a balanced-budget requirement in the constitution. But it is a political disagreement, not a procedural flaw, that underlies the split between the White House and the Democrat-controlled Congress over how to shape the budget and reduce the deficit.

Congressional Democrats, after weeks of bickering among themselves, reached agreement on June 18th on a \$1 trillion budget. The agreement does not, however, extend to the Republicans. Since they control neither the Senate nor the House of Representatives, the Republicans have no obligation to draft a budget; they have been able to stand back, take it easy and make political capital out of the proposed tax increase that is central to the Democrats' plan. For the first time in years, the Democrats have dared publicly to call for a significant tax increase: \$19 billion in 1988 and \$64 billion over three years.

The budget has been ratified by both the House of Representatives and the Senate. But it will fall far short of its stated goal of paring \$37 billion from the deficit next year (to a projected \$130 billion-135 billion) unless its spending and revenue targets are translated into deficit-reduction legislation this summer. The budget allots less for defence than Mr Reagan wants and more for domestic programmes, including extra

Not so much a budget, more a mess

WASHINGTON, DC

It is an open question whether anyone should try to understand how the American budget is made. Most Americans have long since given up. The starting-point for those who accept the challenge is a simple but little understood truth: unlike most other legislatures, Congress does not in fact adopt or approve a budget, whether the president's budget or any other. Since the Budget Reform Act of 1974, Congress (usually) adopts something called a budget resolution, which the press frequently calls a budget. It is not. It is a set of guidelines, of varying degrees of enforceability, for subsequent spending and revenue legislation. But the resolution does not enact anything and is not signed—or vetoed—by the president.

Legislation actually approving spending comes in 13 separate appropriations bills (some or all of which are typically lumped into a single omnibus appropriations bill called, misleadingly, a "continuing resolution") and other bills changing or creating "entitlement" programmes (automatic spending programmes such as Medicare, unemployment insurance, farm subsidies and social security, which is mostly old-age pensions). Other legislation affects the revenue side of the budget. In recent years, Congress has sometimes joined entitlement changes and tax-law changes in a single bill called, for obscure reasons, "reconciliation". Lawyers around the country are gradually becoming used to the shorthand OBRA (for Omnibus Budget Reconciliation Act) or, in the happy acro-

nym of one year, COBRA (for Consolidated Omnibus Budget Reconciliation Act). These are typically hundreds of pages long and alter dozens of individual laws.

Although the budget resolution is not a budget, it does more or less influence subsequent appropriations and other spending legislation. The resolution itself divides total spending into some 20 "functions". These are then translated into the Section 302 (from a section of the Budget Act) allocations to the various committees, where they are supposed to be treated as ceilings on spending. But the Senate and the House of Representatives have slightly different rules. While the Senate Appropriations Committee is supposed to abide by the Section 302 limits for both appropriations and actual outlays (which are different), under the Fazio exception (named after a member from California), the House committee need abide only by the appropriations ceilings. This opens the way to creative means of adding to spending.

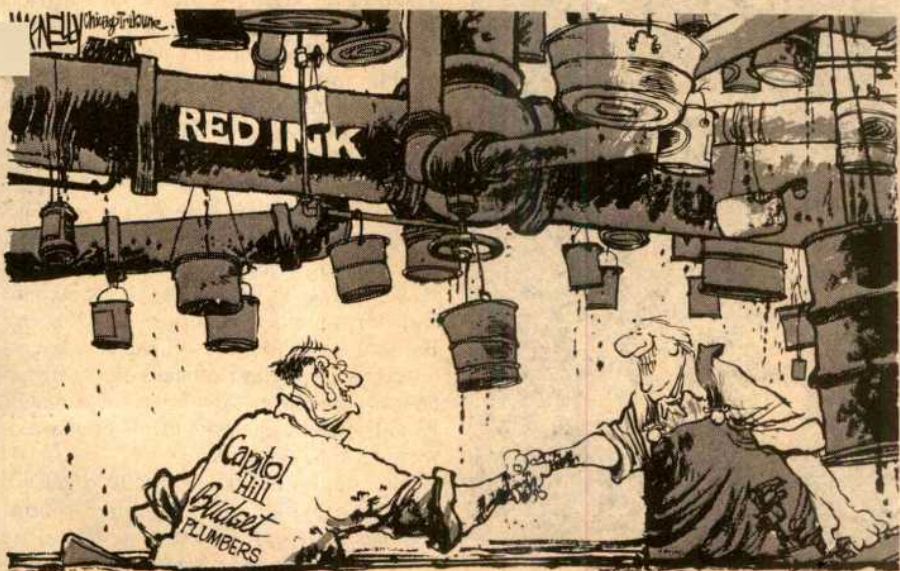
The various proposals for budget reform would alter some of these mechanisms and others, such as "rescissions" (a procedure that comes into play when the president seeks not to spend money that Congress has appropriated). The president himself would like two amendments to the constitution, one requiring a balanced budget, the other giving him the power to veto individual items in the budget. The prospects for any of these proposed changes are about as obscure as the existing process.

cash to combat AIDS and to reform the welfare system.

President Reagan shows no sign of wavering in his determination to veto any new taxes, but the Democrats have introduced a new gimmick to try to change his mind.

The budget withholds an increase in the defence spending that Mr Reagan holds dear until he agrees to the \$64 billion tax increase. "This tells the president, if he wants more defence spending, he's going to have to ask the people to pay for it," said Mr James Oberstar, a member of the House Budget Committee. Mr Reagan is unmoved. Even if he were to agree to the new taxes, the Pentagon's budget would be \$296 billion, still \$16 billion less than he requested when he presented his budget in January. Without new taxes, the defence budget would remain around \$289 billion.

Efforts to reach a compromise with the White House may come to a head in mid-July, when Congress has to pass a bill to raise the federal debt ceiling. This measure could be amended to tackle broader budget questions. Unless Mr Reagan changes his stance, Congress would have to muster a two-thirds majority in both the House and the Senate to enact a tax bill over the president's veto. That is a high hurdle for Democratic leaders, who are not even guaranteed unity among their own followers. Divisions will widen as their tax talk turns to the details of which levies to raise. The



AMERICAN SURVEY

Speaker of the House, Mr Jim Wright, has called for a delay in the scheduled reduction in tax rates for richer Americans. But Mr Dan Rostenkowski, who chairs the House tax-writing committee, says that little treat is untouchable.

The Democrats can expect no support from the Republicans. On the contrary, the Republicans will exploit the budget as, in effect, a rough draft of the Democratic party's platform for the 1988 elections, even if nothing comes of it.

Patricia Schroeder

Fighting on thrift, wit and feminism

WASHINGTON, DC

Representative Patricia Schroeder remarked about a year ago that with a field of seven or so men splitting the vote, a solitary woman should have a fair chance of winning the Democratic presidential nomination. She was not, at that time, putting her theory to the test because her fellow-Coloradan, Senator Gary Hart, was one of those men; two candidates from the same state is just not on. With Mr Hart gone, Mrs Schroeder, aged 46 and keenly competitive, has set herself the next couple of months to find out whether she can raise enough money to justify jumping in at this rather late stage.

It will be tough and she has made it tougher. She will not borrow money, arguing with uncommon rectitude that campaigners who deplore the national debt should not carry a debt of their own: her campaign, uniquely, is to be pay-as-you-go. With no organisation of her own, she is discreet about poaching field-workers from others. Her rivals are understandably nervous since so many grass-roots activists are women. She is trying to galvanise people who have half their minds on their summer holidays. Not in the least interested in a symbolic campaign—she would be sacrificing a good platform in Congress—she is stern about the unfocused enthusiasm she discovers on her exploratory trips. "No dough, no go," is her summer slogan.

The Democratic campaign will be duller if, by September 1st, Mrs Schroeder concludes that the dough is just not there. She stands out from the other candidates for reasons other than the obvious one. She is punchier, for a start, quicker to notice when the emperor has no clothes, and sharper at saying so. She makes jokes, some of them quirky. There is a hint of whimsy. A few of her happier thoughts have passed into the language. She saw Mr Reagan as the Teflon president while she was scrambling eggs in her saucepan; supply-side economics are to her a diet of hot-fudge sundaes.

She describes herself as a fiscally conservative liberal. Few question her liberalism. Her record shows that she is also sometimes prepared to say no, on military spending and farm subsidies, for instance. She is a middle-class voice, often talking of the environment—of world population control and, closer to her Denver home, pollution of air and water. She has earned her passage on family issues, and is trying now to get a bill through Congress to give parents time off (albeit unpaid) when babies are born or adopted, or are seriously ill. And, like everybody else, she makes education a priority. Not quite like the others, she dismisses most educational theory as "ruffles and flourishes" unless teachers' salaries are first made competitive. She is good at getting a snappy message across, leaving the hesitant umming and ahing.

Her stamping-ground is the Armed Services Committee, which she invaded, to the dismay of the chairman, when she was first elected to Congress 15 years ago. She can fling missile throw-weights around with ease, makes an eloquent pitch for arms control, and has been fierce on defence-spending extravagance (braving the defence contractors in her own constituency). She has won soldiers' hearts by sponsoring legislation that makes life easier for their families. And she is one of the harshest voices in scolding America's allies for not paying more for the privilege of sheltering under the American defence umbrella.

The crisis in the Gulf, plus the news that at the end of last year the United States owed the rest of the world \$264 billion (more than double the debt a year earlier), is causing new irritation about defence costs and trade deficits. America spends its money to keep the free world free, runs the argument, while the free world spends its money to make nicely designed goods

which it then slips into the United States. Mrs Schroeder has a radical, and thoroughly muddled, solution. She has introduced a bill that would impose "a defence protection fee" on imported goods. With allies, the fee would equal the percentage of GNP that America spends on defence, minus the percentage the ally itself spends. For Japan, says Mrs Schroeder, the fee would be 5.6%, for West Germany 3.2%. Warsaw Pact countries would be charged a flat 10%; developing countries might be excused. When critics call her idea protectionist, she responds, no, it is just charging for protection.

In the grave post-mortems after the 1984 election, Mrs Schroeder, with her liberal views on women's rights and abortion, her outspoken criticism of Mr Reagan's Central American policy, her unstuffy quirkiness, might have seemed just the candidate that Democratic pundits did not want. As it turns out, not one of the current Democratic candidates is fashioned in the mould that the pundits earnestly advised. Yet Mrs Schroeder, more than the others, is a target for far-right and Christian-right attack. "You know a person by his enemies, we say out west," said she philosophically, "and I've got a good list."

America and Saudi Arabia

Friendly moos from the milk cow

WASHINGTON, DC

Caught between the risks of going forward and the shame of going back, Congress is struggling with itself to decide what, if anything, to do about the administration's intention to protect 11 Kuwaiti tankers in the Gulf. The *Missouri*, a great second-world-war battleship, is being made ready to sail to the Gulf, if called to do so. And Saudi Arabia has come, yet again, to the aid of the administration, helping it over its troubles with Congress.

The Saudis have agreed that their five AWACS surveillance aircraft, flown by joint Saudi-American crews, should patrol the southern part of the Gulf. They have also said that their minesweepers and helicopters may be used to search for the mines that Iran has probably put in the waters off Kuwait. Hospitals have been designated to care for wounded American servicemen. But that, so far, seems to be the limit of co-operation. American officials say that the Saudis have turned down the request that American fighter aircraft should be allowed to refuel at Saudi bases.

The administration has quite a bit to thank Saudi Arabia for. The Iran-contra hearings have revealed that, after a few polite words between President Reagan and



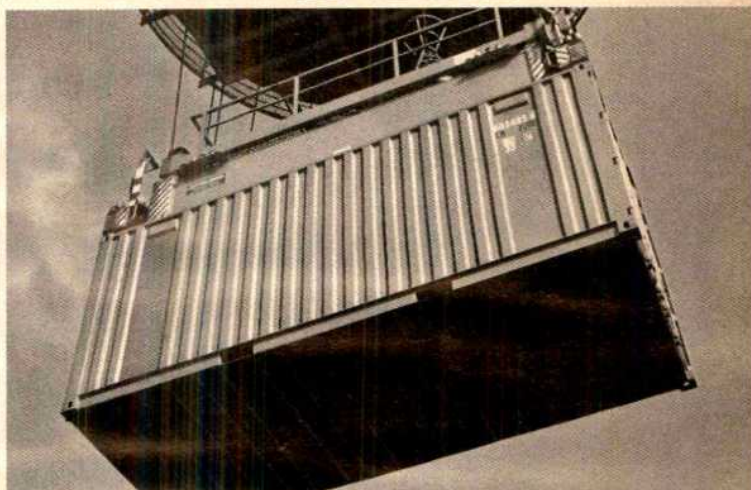
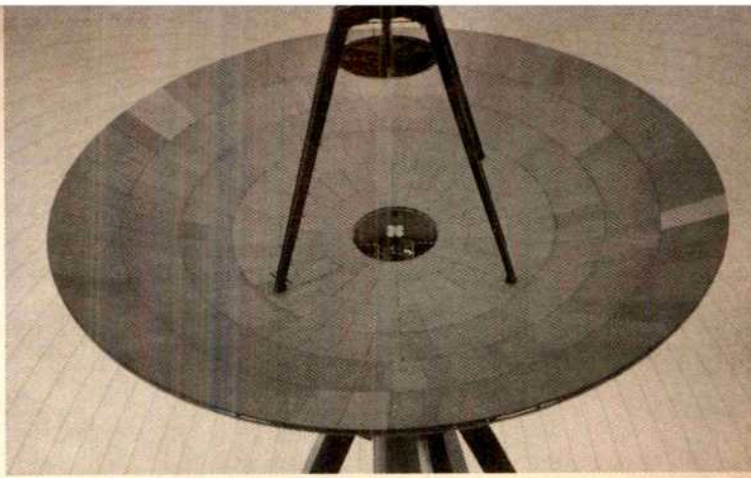
New meaning for protectionism

**“J.P. Morgan is an international
firm with a very important
American business.”**

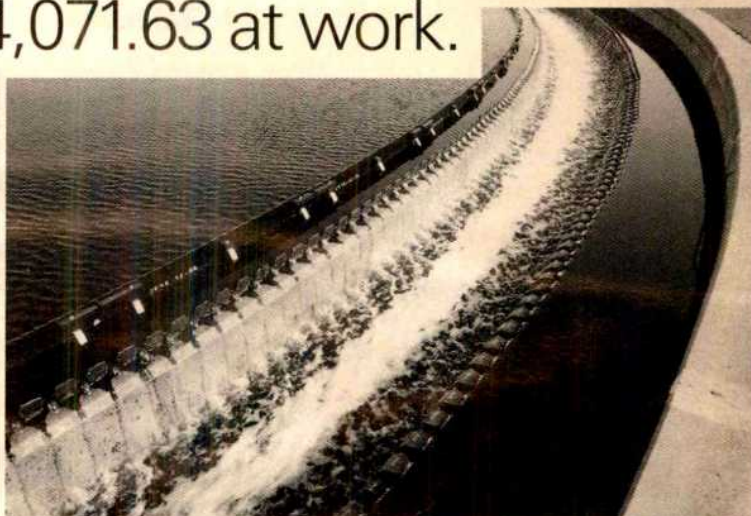
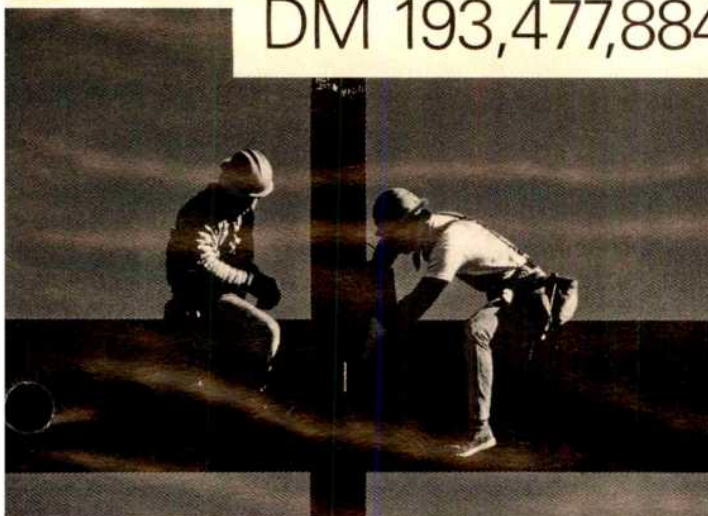
J.P. Morgan was an international firm long before the integration of world financial markets. Over the last century we have established a presence in major financial centres everywhere, building the global resources and experience multinational clients need. Today, whether we're raising capital in London or investing funds in Tokyo, trading currencies in Frankfurt or restructuring assets in New York, J.P. Morgan draws on in-depth company and industry research generated by our 120 analysts worldwide, and minute-by-minute data from Morgan market-makers in each financial center. Our clients know the advice we offer and the solutions we structure come from a global perspective no other firm can match.

© 1987 J.P. Morgan & Co. Incorporated.
J.P. Morgan is the worldwide marketing name for
J.P. Morgan & Co. Incorporated and for Morgan Guaranty
Trust Company, Morgan Guaranty Ltd. and
other J.P. Morgan subsidiaries.

J.P. Morgan



DM 193,477,884,071.63 at work.



Backing the process of economic growth, promoting and funding business ventures, financing innovation – these, fundamentally have always been the objectives of our work.

We finance private and public investments and industrial and commercial exports. And this explains why in 1986 our business volume amounted to more than DM 193 billion.

International capital markets are on the move: new techniques, new services, new products. For customers this means new opportunities. For WestLB this means transforming

WestLB Group in DM millions	1986	1985
Business Volume	193,478	(186,327)
Total Assets	148,219	(142,109)
Capital and Reserves	4,076	(4,032)
Operating Result	1,005	(1,007)
Group Profit	91	(34)

financial needs into assets which meet investors' interests.

Our efforts are producing success – in innovative products, in faster service, through intensive cooperation with our clients.

WestLB

The Westdeutsche Landesbank.

Head Office: Düsseldorf.
Branches: Hong Kong, London, New York, Tokyo.
Representative Offices: Beijing, Melbourne,
Moscow, Osaka, Rio de Janeiro, Tokyo, Toronto.
Subsidiaries: Luxembourg, BFA Paris, BKA Zurich.

You are in Eastern Europe and don't speak a word of the language. You have been told to go "due east at the junction." It's 4 o'clock and will soon be dark. How do you decide which way to go?



Give your trade with Eastern Europe new direction

Austria's trade links with Eastern Europe stretch back into history. Today Austria, a neutral state in a key geographical position, enjoys cultural, business and language ties with the East, and good relations with all European countries. Creditanstalt, as the country's leading international bank, offers you:

- wide experience in arranging and developing business with Eastern Europe
- specialist skills in counter-purchase, barter and buy-back transactions, services critical to success in these markets.

Call Creditanstalt, London (01) 822 2600 or Vienna (0222) 6622-2593.



CREDITANSTALT

Austria's leading international bank •

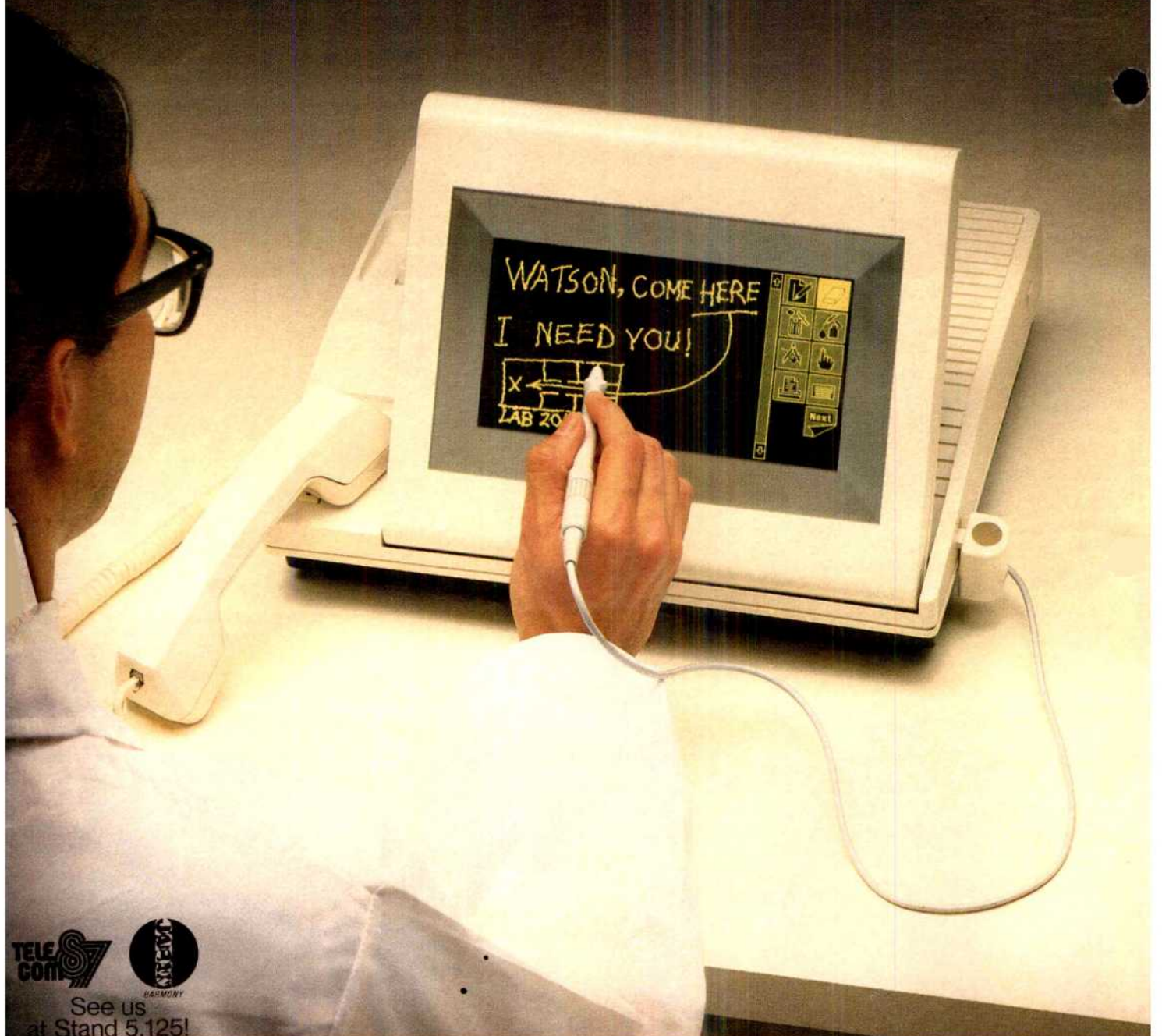
Creditanstalt-Bankverein

London Branch: 29 Gresham Street, London EC2V 7AH. Telephone (01) 822 2600. Telex: 894612.

Head Office: Schottengasse 6, A-1010 Vienna. Telephone (0222) 6622-2593. Telex: 133030.

New York Branch: 717 5th Avenue, New York, NY 10022. Telephone (212) 308 6400. Telex: (RCA) 239895/(ITT) 424700.

THEY'RE WRITING ON THE TELEPHONE!



It's never been done before. Do you know what this means?

It means that the ISDN is real.
That it works. That it's not just a dream.
ISDN?

The ISDN is an 'Integrated Services Digital Network', a futuristic communications system that's digital 'end to end'. It's a system of such enormous capacity, clarity and speed that voice, data and images can all be transmitted at once.

It's a system so advanced that no one had actually made one before—until Fujitsu.

World leading telecommunications maker

Fujitsu is one of the world's leading telecommunications makers, as well as Japan's number one computer maker, with 84,000 employees, projects completed in more than 100 countries, and the unique distinction of building and installing the world's first working ISDN.

That ISDN is in Singapore. Five years in the making, it's still in the trial phase, but already it boasts some remarkable features—like 'no hands' voice dialling, fax transmission with copier clarity, cable-quality teleconferencing, an array of multi-media options, and unique and surprising *Image Phones*, combined telephone sets/

electronic notepads that let you send notes along with your voice to the party at the other end.

In every office and home

Someday these *Image Phones*, or devices much like them, will be in every office and home, linking people in a way they've never been linked before. And they are only the beginning of what's to come, just a very small sign of the enormous power behind them—the power of ISDN. That power, as Fujitsu is proving right now in Singapore, is a real power that is here today.



Fujitsu's FETEX-150 Digital Switching System, a key component in Singapore's revolutionary new ISDN communications system. Singapore Telecom and Fujitsu began joint field trials on this system—the only one of its kind in the world—in April 1985. The trials will be completed at the end of this year. Then commercial testing begins.

**FUJITSU**

The global computer & communications company.



The power of foresight. Worldwide.

In a complex world where even the slightest changes in economic factors can have widespread repercussions, foresight is essential.

As the top-ranking European bank firmly established among the world's leaders, BNP puts its intimate knowledge of world economies to work for you.

With offices in 76 countries, BNP monitors international markets 24 hours a day, gathering and analysing up-to-the-minute data to keep you fully abreast of market changes. With a specialized teleprocessing network and one of Europe's most advanced trading rooms, BNP offers clients the advantage of a constantly updated, clear and precise market reports to help them determine the right moment to act, in Europe... and throughout the world.



Banque Nationale de Paris. World banking is our business.

King Fahd, the Saudis supplied \$32m to keep the Nicaraguan contras going at a time when Congress had prohibited the administration from doing so. The Saudi royal family shares Mr Reagan's anti-communist concerns—and his irritation with Congress. American congressmen, thinking of Israeli interests and Jewish votes, have made it difficult, and sometimes impossible, for the administration to sell weapons to Saudi Arabia.

So Saudi Arabia, when it has the money, may be prepared to spend it in ways that carry forward the American administration's foreign policy. The *New York Times* published on June 21st some of the elusive evidence of these shared interests, including a possibility that the Saudis may have provided money for Mr Jonas Savimbi's guerrillas in Angola, again at a time when Congress prohibited direct American aid.

Saudi-American co-operation started long before Mr Reagan took over. The *New York Times* lists help, given by the Saudis, to buttress anti-communist governments in Zaire, Somalia and Yemen. But by far the largest co-operative effort is the financial support for the Afghan guerrillas. This began, reports the newspaper, during the Carter administration. The American share is concealed in secret appropriations to the intelligence budget, but the joint donations are said to amount to some \$500m a year. The newspaper quotes an unnamed Middle East hand saying gracelessly, "We viewed [the Saudis] as this great milk cow."

Coal

Burning issues

Senator Orrin Hatch is a conservative Republican from Utah—not, you might think, the kind of man to clamour for government regulation. But mine safety is a concern of his: in December 1984, 27 miners died in a horrific fire at the Wilberg mine in Utah. And now he says the Mine Safety and Health Administration is dragging its feet in keeping its promises to him.

One was that by June 1st this year mining companies would be required to improve training in the use of emergency breathing apparatus; another was that by August 1st it would resolve a two-year deadlock on the provision of multiple escape routes from mineshafts. Three are usually required, but Utah Power and Light, the owner of the Wilberg mine, had apparently been allowed to use new technology that was thought to make only two routes adequate. In the Wilberg fire the victims had had no ventilated escape route, free from smoke and carbon dioxide.

According to Mr Hatch, the agency has failed to meet its first deadline. He is threatening to bring its witnesses back



Under-protected?

before the committee if the August deadline is missed. He calls it "an agency in trouble" with "a disturbing pattern of misconduct, mismanagement and serious abuse." Over three months ago, after hearing witnesses from the mine-safety agency relate how regulations were written and enforcement was weakened to please the coal industry, the committee's Democratic chairman, Senator Edward Kennedy, vowed that it would act on proposals that safety enforcement should be given to a new independent body. Hearings in the House of Representatives may again raise the issue. One Democratic representative from the coal state of Pennsylvania also warned the executives of Utah Power and Light that "there are criminal penalties in the law."

Critics say the 1977 Surface Mining Control Act has also been badly administered. The act, which was passed to ensure, among other things, that strip-miners replaced the slopes, trees and other greenery they had removed when they had finished their work, was for years hardly enforced. Indeed, Mr James Watt, President Reagan's first secretary of the interior, did his best to deregulate strip mining. No attempt was made to collect fines amounting to \$150m until Mr Watt was replaced by Mr William Clark, and most of those fines have still not been paid. Mr Watt claimed he had absolute discretion whether to enforce the law or not. One of his decisions, rejected by the courts, allowed strip miners in the Midwest to fill the pits they were leaving with water and call them lakes.

The Appalachian states have suffered grievously. Federal officials have reported to Congress that 6,000 strip mines have been abandoned without any reclamation. According to Mr Morris Udall, who helped to write the act, "Reports of abuses both of the letter and of the spirit of the act

continue to grow almost geometrically."

One of the worst abuses arises from the exemption from the law of two-acre mom-and-pop strip mines. But often large companies evade the law by creating a series of two-acre strip mines 50 feet or so apart, so-called "strings of pearls". The exemption for them is being withdrawn, but plenty of other companies simply disregard the law and get away with it.

Fundamentalists

Apes and apostates

ST LOUIS

America's Christian fundamentalists have lost one and won one. A seven-to-two decision by the Supreme Court on June 19th struck down a 1981 Louisiana statute that required state schools to give the teaching of "creationism" equal time with the teaching of evolution. But in St Louis, Missouri, fundamentalists consolidated their hold on the Southern Baptist Convention, America's largest non-Catholic denomination, with 14.6m members and 36,000 separate churches.

The Supreme Court decision is a setback for the creationists, who had been hoping that the case would be referred to a trial by jury. Opinion polls show that a large majority of Americans, perhaps as many as 80%, are in favour of the equal-time provisions. Creationists had been awaiting the outcome of the case before embarking on a series of similar legislative efforts in California, Arizona, Florida and Texas.

Creationists have changed their methods since the famous "monkey" trial in Tennessee in 1925 when John Scopes was prosecuted for breaking the state's law against teaching evolution. The Scopes case, although a technical victory for the biblical literalists, made them look foolish in the eyes of the world: the Tennessee law (which was not repealed until 1967) forbade the teaching of any theory that conflicted with the account of creation in the first chapter of Genesis.

Modern creationists, by contrast, have tried to keep religion out of the argument. They make the case against evolution on strictly "scientific" grounds. Supporters of the Louisiana statute asserted that it simply required other scientific evidence about man's origins to be presented in classes, alongside the evidence for evolution. Justice Antonin Scalia, a Roman Catholic but no literalist, accepted that argument entirely.

Creationists point to the gaps in the fossil record that must be bridged to confirm the principle that life-forms evolve from the primitive to the complex and diversified: there is an embarrassing lack of intermediate forms linking one species or group of species with another. They also exploit

AMERICAN SURVEY

discrepancies in the radiometric dating of rocks in order to cast doubt on the whole method of using radioactivity to measure age. By concentrating on weaknesses in the established evolutionary models, the creationists try to divert attention from some of the curious assumptions they themselves make: the requirement, for example, that God should have created a ready-made universe, complete with a history embedded in rocks and fossils, a matter of mere thousands of years ago.

The Supreme Court majority did not accept the "scientific" argument, despite the mountains of evidence submitted by the creationists. The justices clearly detected an underlying religious argument. "The pre-eminent purpose of the Louisiana legislature", wrote Justice William Brennan, "was to advance the religious viewpoint that a supernatural being created mankind." The state was therefore in conflict with the first amendment to the constitution, which forbids the enactment of a law "respecting an establishment of religion".

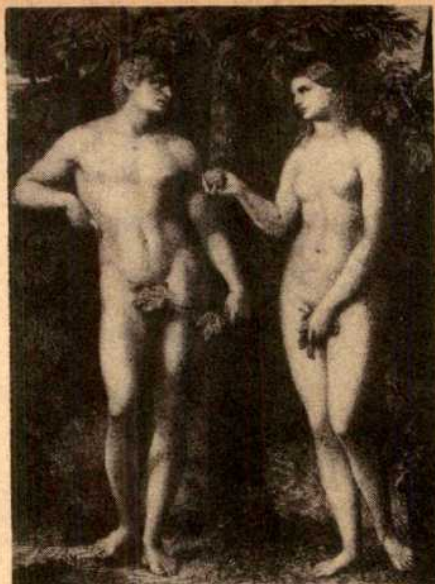
News of the Supreme Court decision came too late, however, to cast a shadow over the triumph of the fundamentalists at the Southern Baptist Convention. The re-election of last year's president, Mr Adrian Rogers, by the 25,000 assembled messengers (as conference delegates are called) was a foregone conclusion, though the size of his win over his more moderate rival turned out smaller than expected. But the fundamentalists also gained control of all the

main committees, including home and foreign missions, and of the boards of trustees of five of the six seminaries governed by the convention, including the Southwestern Theological Seminary at Fort Worth, the world's largest religious college.

At the centre of the fundamentalists' triumph was the adoption, by a huge vote, of a controversial report by the Peace Committee, set up two years ago ostensibly to end ten years of theological infighting between fundamentalists and moderates. The Peace Committee affirms the literal accuracy of the Bible. It insists that most Southern Baptists believe that Adam and Eve were real people and that the events described in the Bible (including, for instance, Jonah's sojourn in the belly of a whale) actually happened.

Most members would not object; a few are sceptical. The sense of doom among the dwindling band of moderates comes from the decision to keep the Peace Committee in being for up to three more years in order to encourage compliance with its recommendations. Mr Rogers made it clear that while staff at the seminaries were entitled to their own beliefs, they would henceforth be expected to "reflect in their teachings what those who pay their salaries believe."

One leading moderate, Professor Glenn Hinson of the Southern Theological Seminary at Louisville, Kentucky, sees the ruling as an affront to Baptist theology and tradition. Baptism took root in the seventeenth century among Protestants passion-



The way it was?

ately committed to freedom of conscience. The church's founder in America, Roger Williams, was expelled from the Massachusetts Bay Colony for refusing to accept the uniformity of worship and belief imposed in Governor Winthrop's "Holy Commonwealth". The colony Williams founded at Providence, Rhode Island, was the first with a charter explicitly dedicated to religious liberty. Now, says Mr Hinson, the Peace Committee has been "converted into a Holy Office or Inquisition".

A black victory beyond the News

NEW YORK

New York's *Daily News*, the brassy, street-wise tabloid that was once America's most popular daily and is still its third biggest in circulation (1.4m), likes to act as if nothing can surprise it. That is why it decided to defend itself in court when it was accused of racial discrimination by four black reporters on its staff, who claimed that they were paid less than whites and who were denied promotion, and then faced retaliation for complaining about their treatment.

Management at the *Daily News* was genuinely shocked by the accusation. Aware of its large black readership, it had statistics to show that an increasing number of its new employees were members of minority groups, and many of them were blacks. It was convinced that it had been fair to the four plaintiffs, whose professional skills, it said, had "serious shortcomings". And it was prepared to go to trial, the first ever for a newspaper brought under federal civil-rights legislation banning discrimination in employment on the basis of race, rather than negotiate a settlement that might appear to admit that the charges against it were true.

The *Daily News* was surprised again when, after a long trial, the jury found for the plaintiffs on many of the charges. It announced that it would appeal. But, faced with the reconvening of the jury to consider damages, the newspaper belatedly realised that negotiations were preferable after all. Under an agreed settlement, it is paying \$3.1m to its four employees, half of that going on their lawyers' fees and other expenses. In addition, the *Daily News* has pledged itself to hire and promote more members of minority groups.

Black journalists have hailed the settlement as a landmark victory. In many ways, it is. Although blacks have made a lot of progress in journalism over the past two decades, they have done much better in television than on newspapers. That is because stations appealing to sizeable concentrations of black viewers seek attractive and articulate blacks, and salaries tend to be higher in television. In contrast, black reporters and editors on newspapers, though more numerous than they used to be, are still fairly few.

Newspaper publishers insist that they have tried to recruit more blacks, and to

advance them. Some, like the Gannett chain, have. But many more hold the same sort of attitude as the *Daily News*, which patted itself on the back for its colour-blind policies. Yet evidence at the trial showed these to be self-delusion. One of the four plaintiffs, for example, was demoted because he had written a story that the paper had to retract. Another was suspended after taking out a bank loan for which a congressman, who was a news source, acted as a signatory. Witnesses for the *Daily News* suggested that both men should have been fired, but were kept on because they were black. The plaintiffs were able to show that no action had been taken against white reporters in similar situations; indeed, they had subsequently been promoted.

The *Daily News* has pointed out that things were different a few years ago, when the incidents took place. Even so, it will try harder. So will the *New York Times*, which has decided that half of all new editorial employees will be members of minorities. Editors admit that they will have to take special pains in training blacks and Hispanics (much is already being done by foundations), but what is needed just as much is a change in their own attitudes. Other papers, anxious to avoid embarrassment, are likely to follow suit.

EUROPE

Jawohl, mon général

Mr Helmut Kohl's proposal for a joint French-German brigade has set people thinking about how far co-operation on defence between France and West Germany might go. Our Bonn and Paris correspondents report on some new ideas and some old stumbling-blocks

To understand what led the West German chancellor to make his joint-brigade proposal on June 19th, look back first to last year's Reagan-Gorbachev meeting in Reykjavik. To West Europeans, it seemed that President Reagan's loose talk of abolishing ballistic missiles came dangerously close to removing the American protection Europe had come to count on. Discussion of the need for greater European co-operation on defence grew louder. That anxiety might have faded, Mr Reagan having caught his tongue, had not the proposed removal of American medium-range missiles in the "double zero" Euromissile deal set hearts fluttering in West Germany again. Were the Germans to be left vulnerable to the Warsaw pact's superior conventional forces? No; but anxious German eyes, as they often do at such times, turned towards France.

In France, the need to make Europe's defences more European—meaning both less nation-bound and less burdensome to America—was becoming a motherhood issue even before the Euromissile agreement turned into a serious possibility. Apart from France's Communists, and old Gaullists such as Mr Michel Debré, French politicians of all parties welcomed the spirit of Mr Kohl's suggestion. The encouraging response from both President Mitterrand and Mr André Giraud, the minister of defence, is quite genuine.

So, however, is the first obvious difficulty. Under which government's ultimate control would a French-German brigade lie? Since West Germany and France have no common general staff, the brigade's commanding officer, regardless of his nationality, would have to take orders from either French or German superiors. If he took French orders, this would seem to mean

removing German troops from NATO command, something West Germany is committed not to do. If he took German orders, then French troops would in effect, for the first time since 1966, be at least indirectly subject to NATO control.

No question, Mr Mitterrand said on June 20th, of French troops being put back directly under NATO command. And creating a European command that could one day replace the NATO one, he suggested, would take a long time. Still, Mr Mitterrand added, "If one looks, one finds".

Mr Kohl's motive in suggesting the joint brigade was probably a fairly conventional one: to lure France back into closer military

co-operation with its NATO allies. But the fact that it was made, and the polite response it received in France, are signs of a new openness about such things on both sides of the Rhine.

Senior officials in Bonn who previously paid lip-service—the lip usually curling—to the concept of French-German military co-operation now treat the topic more seriously. They point approvingly to a long-standing officer-exchange scheme between the two countries' armed forces, which in a few years' time, the optimists say, may mean that all of each side's officers have worked with the other side's. They observe that next September's joint French-German manoeuvres in West Germany will be the biggest ever, and will encourage the French to accept a "forward defence" policy which defends France on the Elbe rather than on the Rhine. These are small things, but useful.

For years, France has been edging back towards the co-operation with its NATO allies which it abandoned when de Gaulle withdrew its armed forces from the alliance's unified command in 1966. Secret agreements exist about how, if a war happened, France would provide the support to its friends that de Gaulle, even in 1966, said would still be forthcoming. A lot of co-operation goes on between France's armed forces and those of NATO countries. Yet, for France's allies, this sort of thing is at best a half-way house. Western Europe would be much safer, they say, if France's military planners worked from the same blueprint as their western colleagues.

Before 1966, the main task assigned to the French army was to support an allied counter-offensive against a Soviet invasion. Since 1966, because it could no longer count confidently on France, NATO has had to abandon the counter-attack plans involving the French, and has set itself the difficult task of trying to hold the Russians as far forward as possible. France's three divisions in West Germany play no part in this: they are stationed well behind the front, just east of the Rhine. Nevertheless, the French army retains one vital characteristic. It is the only large body of reserves the alliance possesses in Europe. French generals, understanding this, have made detailed agreements about how



Mitterrand and Kohl ponder the next step

EUROPE

French units might come to the help of their allies in wartime.

They have so far hung back from the obvious next step: which is to accept that France should put its troops right up in the front line, "on the Elbe". This idea nowadays sounds less heretical in Paris than it once did. Some students of the subject—such as Mr François Heisbourg, who was chief adviser to the former Socialist minister of defence, Mr Charles Hernu—recommend it. But of course the Great Question would then return: under NATO command (and de Gaulle turns in his grave) or outside NATO (and the other allies have conniption fits)?

A blender-processor army?

So far, military co-operation between France and West Germany has come in pretty small doses, and even Mr Kohl's mixed brigade would not be a big one: the alliance as a whole already runs the multinational ACE mobile brigade. Some politicians in Germany and France would like to go much farther.

The most radical proposals have come from a former West German chancellor, Mr Helmut Schmidt, with the support of a former French president, Mr Valéry Gis-

card d'Estaing. In a speech in February in Paris, Mr Schmidt urged the complete integration of France's and West Germany's non-nuclear forces (along with those of the Benelux countries), into a single force of well over 1m soldiers. That, he believes, would be enough to deter a Warsaw-pact offensive; or, if it did not, to halt it without early resort to nuclear weapons.

Mr Schmidt also proposed a joint French-German defence budget, with the Germans putting up more of the cash for conventional forces so that the French would have more money to improve their nuclear ones. These should be available for the protection of all continental Western Europe, thought Mr Schmidt, not (as the French still firmly insist) France alone. The decision whether to use nuclear weapons would, of course, remain France's. The whole force would have a French supreme commander.

Military co-operation between France and Germany, as between any European countries, can go no farther than the degree of political cohesion between them allows. That "European army" remains a dream until there is a single European government with a single defence policy. If Mr Kohl's joint-brigade suggestion leads France back

into more of the co-operation with its allies those allies have long wanted, it will have been an excellent idea. If it sets people thinking that the armies of Western Europe can be turned into a sort of purée, it will not.

Soviet Union

Any colour, so long as it's reddish

At midweek, votes were still being counted in the Soviet Union's first more-candidates-than-seats local elections since the 1920s. The usual 99%-plus vote for the officially sponsored candidates was unlikely to change much, since all the candidates still needed the blessing of the local Communist party committee. But this time, by way of experiment, the voters in about 94,000 of the 2m-plus seats contested on June 21st—fewer than 5%—had more than one approved candidate to choose from. Hardly the stuff of election fever (but then who gets excited about local elections in the West, either?). This is the first of a series of changes that Mr Mikhail Gorbachev hopes

Big one that got away

Imagine a Russian submarine heading south into the Atlantic between Iceland and Greenland, tracked by NATO's sea-bed hydrophones and submarines. They pick up the sound of her propellers at a range of around 200 miles, roughly the distance from London to Brussels. The NATO submarines follow her into the Atlantic and track her throughout her patrol. Imagine a second Russian submarine, equipped with new, quiet propellers, coming through a few hours later. The listening devices can hear this one's screws only within a range of about ten miles, less than the distance from central London to Heathrow airport; the NATO submarines miss her; she slips into the Atlantic and is never picked up again.

A "worst-case" hypothesis? No. There is no doubt that propeller-making machinery sold to Russia by a Norwegian and a Japanese company between 1982 and 1984 will make a big difference to the noise put out by Russian submarines. The system sold was a combination of Norwegian computer equipment, the software for it, and a Japanese machining device. The rules of Cocom, the organisation of NATO countries plus Japan that co-ordinates export controls in trade with communist countries, prohibited the sale of most if not all of this equipment.

Although officials of the Norwegian company, Kongsberg Vaapenfabrikk, had many times denied any wrongdoing, the complicated arrangements under which it

and the Toshiba company of Japan supplied the equipment have become clearer since the story first surfaced in April. According to the Norwegian foreign ministry, at least one piece of the Norwegian equipment was falsely labelled in order to get it through export controls. One of KV's officials has been charged with falsifying an application for an export licence for some of the material. The Japanese police have arrested two Toshiba employees. On June 18th Mrs Gro Harlem Brundtland, the Norwegian prime minister, apologised to President Reagan for Norway's part in the affair and began tightening up Norway's controls over such technology.

Norway has closed down KV Trading, the company that did the liaison with Toshiba; closed KV's Moscow office; and told KV not to trade with the Soviet block in the future. Then on June 22nd Norway announced measures—including more stringent inspection and stiffer penalties for offenders—to tighten up its enforcement of Cocom rules.

None of this can undo the damage already done. True, the Russians had been narrowing the "noise gap" between their submarines and those of the West in recent years, even before they got the new machine; sooner or later they would have worked out how to make for themselves the equipment they bought. But it would have taken time, probably several years. And during that time western countries would have moved ahead in some other means of detection. Developing the other means will cost billions; and no amount of money can buy back those years.



When the eye doesn't see it, the hydrophones may no longer hear it

will put some ginger into the local soviets, as the councils are called.

Under the old system, each seat had its one candidate, and voting "no" took courage. Voters are usually harried into the polling stations by officials (and there are ballot boxes on trains for those tempted to try to get away from it all); rejecting the chosen candidate required walking into a special booth to strike out the solitary



Hands up for a bit of choice

name. Since a candidate could lose only if he, or she, failed to get more than 50% of the votes, few lost. This time some Soviet citizens did have a choice of sorts. Even at some of the big majority of polling stations without a choice, the furniture was rearranged so that everybody had to pass through a booth. That may help to explain the misfortune that befell Irina Dodonova, the director of the canteen at Moscow University. She was the only unopposed candidate in the capital who failed to win a seat.

Even in the old days some candidates missed out. In the mid-1960s one candidate in 1,000 failed to get elected. In the 1977 local elections about 60 candidates were rejected; by 1982 the figure had crept back up to 94. A few of those who did duly vote for the pre-selected candidates used their ballot papers to complain, sometimes with cheerful vulgarity, about local issues.

Mr Gorbachev hopes that this year's experiment in consumer choice will be extended. In his speech to last year's Communist party congress, he called for local councils to be given more power over the things that affect people's everyday lives. In the early 1980s Mr Edward Shevardnadze, then Georgia's party boss and now one of Mr Gorbachev's warmest supporters, presided over an experiment in the little town of Poti that gave the local council the final say on all economic decisions that affected its people. The Poti councillors even had the right to cock a snook at the men from

the Moscow ministries. The experiment was considered a huge success by Georgians. The new party boss in Kazakhstan is talking of something similar there.

These soviets have plenty of scope. According to the Soviet Union's deputy housing minister, during a radio phone-in programme last month, most of the country's housing stock will have been transferred to local-council control by 1993. If the councils are to get to grips with the housing shortage (many families in big cities still have to share a kitchen and bathroom), control of the purse-strings will also have to be transferred to them from the centre. The central ministries, whose powers Mr Gorbachev was trying to whittle down at this week's Central Committee meeting, won't like that. More powerful councils need more competent people to man them. Hence the importance of last weekend's election experiment.

Turkey

How the Kurds shook the West

FROM OUR SPECIAL CORRESPONDENT IN EASTERN TURKEY

It was just a month before martial law was due to be lifted in Mardin and three neighbouring provinces in south-eastern Turkey, where for the past six years Kurdish separatists have been renewing their old rebellion. Mardin had been the calmest of the affected provinces, lying west of the troubled corner where Turkey, Iraq and Iran



meet amid chaotically beautiful mountains. On June 20th it was caught in the worst single attack of the revolt. Guerrillas stormed down from the hills and murdered 31 people in the village of Pinarçik. Turkish fury has turned not only against the Kurds but, because of a coincidental rebuke delivered by the European Parliament, against Turkey's western allies.

Assaults like the Pinarçik massacre are usually blamed by Turkish officials on the so-called Kurdistan Workers' party (PKK). Although other separatist movements exist, the PKK is the strongest and the only one that explicitly advocates violence. Most other groups refuse to collaborate with its armed wing, the Kurdish National Liberation Front.

Of the four provinces under martial law, Mardin may have been the least agitated because much of it is rolling farm and grazing land. Keeping guerrillas out does not look like an insuperable problem. At the province's southern edge, the border with Syria has double, triple, sometimes quadruple lines of barbed-wire fencing.

Have book, will still travel

FROM OUR BONN CORRESPONDENT

For West Germans, a holiday abroad must be a fearful strain. That at least is the impression conveyed by a booklet of holiday tips issued by the Bonn government in time for the annual trek south to the sun (which is where Germans, like other north Europeans in this monsoon June, have to go for it). From its introduction on the economic importance of tourism, through 128 pages of tables, charts and earnest advice, the booklet is a choice example of the German tendency to take pleasure seriously.

Germans about to venture across the borders of the well-ordered Federal Republic are given warning that they have a heavy responsibility as roving ambassadors. They are urged to show tolerance, patience and friendship to all—a tough task if the hazards listed in the booklet are anything to go by. Look out for drugs slipped into your luggage; share out money and papers among members of your group in case of accident or theft; mind where you point your camera or you may be

jailed as a spy. Thinking of bringing back ivory carvings or a leopard-skin rug? Don't. You would be helping to exterminate rare animal species.

Package tourists should pay special heed to pages 92-97, headed "Your rights travel with you". They explain how you can claim compensation if given a vile hotel room or not enough meals. The booklet also remarks brightly that if your holiday is ruined because of one deficiency after another, you are not legally bound to stick it out to the bitter end.

After that dismal catalogue, it may come as a shock to learn that West Germans are consolidating their position as the world's most avid foreign travellers. This year it is reckoned they will spend a record DM46 billion (\$25 billion) abroad. West German tourist firms gleefully report bookings up by 20% and more, especially to Turkey, Italy and Spain. "Mediterranean sold out", announces one big tour operator. *Wanderlust*, it seems, is unstoppable.



Misery in Pinarçik

with manned watchtowers every 200 metres or so. Farther east, near the Turkey-Iraq-Iran meeting-point in Hakkari province, the mountain border is much rougher. It cannot be fenced; cliffs and army patrols are supposed to do the job. At closely-spaced checkpoints, soldiers stop and frisk bus and car passengers, and herdsmen walking to high pastures.

Up to a fifth of Turkey's 51m people are usually reckoned to be Kurdish, although the definition is blurry. The area in eastern Anatolia they inhabit is larger than the Turkish authorities care to admit. It is difficult to establish how much of the Kurdish population sympathises with the separatist movements. Suspected membership is ground for arrest; if considered proven, it carries a minimum sentence of two years in prison. Avowed members are almost impossible to find. The guerrillas are probably few in number, but enough to create a serious nuisance.

Despite Pinarçik, Turkish officials are sticking to the line that the decision to lift martial law in a few weeks' time, taken by parliament, will not be rescinded. But many Turks are demanding retaliation. An air strike against Kurdish lairs in Iraq? That could happen (the Turks have a gentleman's agreement with the Iraqis on the right to hot pursuit) if it became clear that the attackers got away across the Iraqi border. A trickier problem for the Turks would be how to deal with the Syrians, who are thought to have repeatedly given sanctuary to Kurdish rebels in the past few years. The prime minister, Mr Turgut Ozal, ever keen to keep on good terms with the Arabs, opposes any move against Syria.

So the first target of Turkish anger has been a more distant, less obvious one: the European Community. A few days before the Pinarçik attack, the European Parliament, a body that rarely succeeds in getting

itself noticed, had passed a resolution censuring Turkey on several counts; these included the Ottoman empire's persecution of the Armenians, and the present government's treatment of the Kurds. On June 22nd Turkey's President Kenan Evren accused the West of encouraging the Kurdish guerrillas, and declared that the time had come for Turkey to reconsider its membership of NATO. A heat-of-the-moment threat, no doubt, intended mainly for domestic consumption. But the reaction demonstrated Turkey's extreme sensitivity about its eastern lands.

Spain

One bomb too many from ETA?

FROM OUR SPAIN CORRESPONDENT

After nearly 20 years of terrorist attacks, Spaniards thought they were hardened against the nastiness of the Basque separatist group ETA. Until now its victims had mainly been policemen, military officers and the odd businessman or politician. But on June 12th members of the group started a spectacular fire in Tarragona's petrochemical complex, near a housing estate. A week later a bomb placed in an underground car park beneath a Barcelona store killed 18 people.

It was all too much for the Catalans who live in those two cities. On June 22nd about 700,000 chillingly calm people assembled in Barcelona to say "enough", in the biggest demonstration Spain has seen in many years. In the Basque country itself symptoms of shock appeared even among those who normally support ETA. The separatists'

political arm, a loose coalition called Herri Batasuna, criticised the Barcelona bombing. But when ETA itself later apologised for its "serious error" one of Herri Batasuna's leaders, Mr Jon Idigoras, horrified people by saying that this showed "political honesty and maturity".

Exactly what ETA means by an "error" is not clear. Some policemen think the group expected that the store could be evacuated in time and that the bomb would, at the most, injure or kill policemen sent to defuse it. A telephoned warning of the explosion had been given to a newspaper, but the police in Barcelona receive on average 20 bomb warnings a day. Other policemen think poor co-ordination among the terrorists may have caused confusion over the timing of the blast.

The various Marxist and nationalist factions in ETA periodically split up, often after struggles over the leadership. In recent months a series of arrests and the capture of hideouts have obliged its members to revert to a loose organisation, with cells linked only tenuously to shadowy leaders. This, it is said, increases the risk of indiscriminate attacks. At the same time, a tightening of security around official buildings in Madrid and the cracking of a group based in the capital have turned ETA's attention to Barcelona, a city whose size favours anonymity while its importance—heightened by its successful bid for the 1992 Olympics—makes any disturbance there a sure headline-winner.

This time, however, the headlines seem to have been too hot even for ETA. The Barcelona bombing will alienate many of its former sympathisers among the Basques. In Herri Batasuna, it already seems to be bringing out divisions which are normally kept private.

North-south: the EEC

Two sides to Europe

When they meet in Brussels on June 29th-30th, the European Community's leaders will find it hard to agree on reforms of the budget or of farm policy. One of the reasons is that the Community is still divided into two camps—roughly, the richer north and the not-so-rich south—with different ideas of the way ahead. In the last of our north-south series, our Brussels correspondent looks at the two Europes



"It would mean putting the Sicilian Mafia in charge of Germany's immigration policy and the fight against terrorism and drugs." That was how a West German cynic reacted to the Community's plan for abolishing internal frontier controls by 1992. It is less a comment on the feasibility of the project than an indication of the way many north Europeans regard southerners. For their part, people

in the south of the Community will admit to a grudging respect for the diligence of the folks up north but conclude that, all in all, their way of life is better.

Old prejudices apart, the relatively affluent north of the EEC and the less prosperous south are at odds with each other on a widening range of issues. This clash of interests is the main reason for the Community's current stalemate.

The rich-poor divide in the Community is not strictly a north-south one. Ireland is

1987 JAPAN BUSINESS ATLAS

With an economy second only to the US in the free world, and a GNP equal to 13% of the accumulative global GNP, Japan is now the world's largest creditor, financing loans to the value of more than US\$200 billion. The **JAPAN BUSINESS ATLAS** is a versatile business tool, designed to provide, at a glance, through graphs and charts what you need to know about this dynamic economy, its markets, competition and market entry.

Delving through the volumes of data released by government authorities on Japan can be extremely frustrating. One dimensional and fragmented, this kind of data does not provide the information, busy executives need to know about market entry, participation or expansion.

The **JAPAN BUSINESS ATLAS** supplies all the answers to these and any other questions which needed to be answered. By condensing and systematically organising the available macro information, the **JAPAN BUSINESS ATLAS** provides an accurate picture of Japan both as a potential market and a competitor.

The operation of the government, bureaucracy and all major industries, state of the art technology, R&D trends, product and market share breakdowns, potential competition, land and office rents, salary levels, regional development and other valuable data presented as graphs and charts to save you time. Each graph and chart is, as much as possible, qualified by statistical data and to the point comments.

Drawing on BI's over 30 years of experience in providing business information to the world's multi-national companies, the **JAPAN BUSINESS ATLAS** has been compiled to provide companies currently conducting or contemplating business with Japan, the necessary groundwork on which to base decisions. Busy executives will find the **JAPAN BUSINESS ATLAS** an indispensable aid, as it has been designed to be easily adapted for utilization in internal corporate presentations.

Price: US\$320

Please send your order to the following with check.

Business International, Japan

Pola Aoyama Building, 2-5-17, Minami Aoyama Minato-ku, Tokyo 107, Japan.
TEL: 404-5672 Telex: 26683

HRDbase

the database on human resources

SOCIO-DEMOGRAPHIC PROFILES OF KEY ARAB COUNTRIES

The comprehensive statistical source book for market analysts, marketing agencies, sales managers, country economists and researchers.

These profiles are detailed statistical portraits of the populations and workforces of each of these states by age, sex, nationality and socio-economic parameters such as educational attainment, household size and geographical location. This report contains a qualitative assessment of likely change. A follow-up report will address future growth explicitly on a country-by-country basis.

Countries included:

Bahrain, Jordan, Kuwait, Libya, Oman, People's Democratic Republic of Yemen, Qatar, Saudi Arabia, United Arab Emirates and the Yemen Arab Republic.

Price: £650 including postage and packing. Additional copies £100 per copy. A set of data diskettes, formatted in Lotus 1-2-3, is also available at £10 per set.

Please send me copy/copies of Socio-demographic Profiles of Key Arab Countries.

Please send me set/sets of data diskettes. I enclose a cheque for £ made payable to HRDbase Ltd.

Name

Address

Please send me information on your forthcoming report:

☐ Arab Consumer Markets in the 1990s.

HRDbase Ltd, Lloyds Bank Chambers, Collingwood Street, Newcastle-Upon-Tyne NE1 1JP, United Kingdom.

Business Information

From The Economist Intelligence Unit

Corporate Finance

☐ Raising Money for Business

Most businessmen are unfamiliar with the bewildering array of financial intermediaries now offering venture capital. (In many cases the high street bank is the first and last port of call.) This new report demystifies the role of financial institutions and explains the options available to cash hungry businessmen. Among the areas covered in this "how-to-get-it-guide" are, the high street bank, government sources, debt factoring, property and export finance, the BES, going public and the Third Market.

Price including postage: £55 UK and Europe; US\$90 North America; £58 Rest of World.

☐ Guide to the Business Expansion Scheme

The Business Expansion Scheme (BES) has been the UK's most successful recent job creation scheme. Since 1983 it has attracted venture capital worth more than £500m and created over 20,000 jobs. This new guide explains the advantages and pitfalls of the BES for businessmen, financial advisors and investors. The report clarifies the tax and legal issues, shows how to draft a prospectus and how to get the most out of professional advisors-sponsors, accountants and solicitors. This indispensable how-to-do-it guide tells you how to use the scheme to your maximum advantage.

Price including postage: £65 UK and Europe; US\$165 North America; £68 Rest of World.

☐ Sterling Commercial Paper A Guide for Issuers and Investors

The introduction of sterling commercial paper in April 1986 was further evidence of the trend for securitisation of corporate debt. Reaction has been very positive if less than the media had initially anticipated. This report is the first to provide detailed and balanced analysis of the product and issuing process, advising investors and issuers alike both as to its workings and suitability.

Price including postage: £100 UK and Europe; US\$175 North America; £103 Rest of World.

☐ Crawford's Corporate Finance

The new, 700-page edition of this Crawford's directory lists all the names in seven categories of who to approach for business finance in the UK. It is aimed specifically at the UK entrepreneur but is also ideal for accountants, bankers, management consultants and solicitors who advise their clients on who to approach for business finance. Also listed are the criteria each financial institution has for lending capital.

Published March 1987. Price including postage: £85 UK, Overseas airmail US\$140.

All ex UK prices include Airmail postage
The Economist Publications Ltd, 40 Duke St, London W1A 1DW.

To order please tick the boxes by the titles, complete the address details below and send to:

**The Economist Publications Ltd,
40 Duke Street, London W1A 1DW, UK.
Telephone: 01-493 6711.**

- ☐ Raising money for Business
☐ Guide to the Business Expansion Scheme
☐ Sterling Commercial Paper
☐ Crawford's Corporate Finance

I enclose payment of £/US\$
Payable to The Economist Publications Limited

Please charge my: ☐ American Express ☐ Visa Card

Expiry Date

Signature

☐ Please invoice me

Name

Address

.....

.....

.....

☐ Please send full details of the current range of EIU Publications

10 Rockefeller Plaza, New York
NY 10020, USA. Tel: (212) 541 5730

Reg. No. 1775671

EVDL

**The Economist
PUBLICATIONS**

THE WORLD BANK



WORK, WAGES AND WELFARE IN A DEVELOPING METROPOLIS:

Consequences of Growth in Bogota, Colombia

Rakesh Mohan

OUP/World Bank

£27.50 ISBN 0 19 520540 5

Based on the World Bank's "city study" research undertaking, the author examines the interaction between the changing economic and demographic structure of the developing metropolis and the workings of the urban labour market. He also explores the extent of poverty, changes in levels and distribution of earnings over time, and the factors that cause low earnings.

Methods to analyse these issues elsewhere in the developing world are identified.

AGRICULTURAL MARKETING STRATEGY AND PRICING POLICY

Dieter Elz

World Bank Symposium Paper

£11.95 ISBN 0 8213 0830 0

This book presents a series of papers describing the views of senior decision makers on issues of agricultural marketing and pricing. It relates the collection and distribution of agricultural products, particularly food, to the redistribution of resources, wealth, and power and the role that the marketing of agricultural products can play as a tool of development in the regulation and execution of development processes.

THE WORLD BANK ATLAS 1987

£4.75 ISBN 0 8213 0863 7

Published for the first time in a consolidated volume that supplies text in English, French and Spanish. This new edition contains data on population, gross national product (GNP) and GNP per capita for 184 countries. In addition to the standard data on population, such as life expectancy, data are also presented for two new indicators: Total fertility rate and total school enrolment, both primary and secondary.

Text, charts and maps highlight the more instructive aspects of the data.

To order from The Economist's Bookshop mark number of copies required beside each title above, complete details below and return ad as order form.

Cost of books £

Postage: (1 book £1.95 + 75p for each additional book) £

Registration (£1.10 if required) £

TOTAL £

☐ I enclose my cheque payable to The Economist's Bookshop

☐ Please send me a proforma invoice

☐ Please charge my Access/American Express/Visa card

Account No:

Expiry date:

Name:

Address:

.....

Signature:

Please mail to The Economist's Bookshop, Clare Market, Portugal Street, London WC2A 2AB

US customers only send orders to World Bank Publications, Dept 0552, Washington DC 20073-0552 USA.
Tel: 202-473 2539



Good results for everyone we answer to.



British Telecom is pleased to announce its financial results for the year ended March 31, 1987.

Profit before tax exceeded £2 billion for the first time; this continuing financial success enabled us to spend nearly £6 million a day on modernising and expanding our system, accelerating the process of catching up on a long period of under-investment as a public sector corporation.

We are continuing to invest at record levels this year, to the benefit of our investors, our customers and our staff.

We are working on huge projects, like the replacement of thousands of old, electro-mechanical telephone exchanges with new, faster, more reliable digital

Financial Results for year ended 31 March 1987

	Fourth Quarter 1986/7		Full Year 1986/7	
	£m	£m	£m	£m
Turnover	2,415	2,227	9,424	8,387
Operating profit	629	561	2,349	2,118
Profit before taxation	555	497*	2,067	1,851*
Profit attributable to ordinary shareholders	341	267	1,257	1,027
Earnings per ordinary share	5.6p	4.4p	20.9p	17.1p
Dividends per ordinary share (net)			8.45p	7.5p

* Before employee profit sharing in 1985/86.

The accounts from which these figures are extracted have not yet been filed with the Registrar of Companies or reported on by the auditors.

A final dividend of 5.1 pence net per share will be proposed to the Annual General Meeting, making a total dividend of 8.45 pence net for the year. It will be paid on September 28 to those investors on the register on August 21, 1987.

The Annual General Meeting will take place on September 9, 1987 at the National Exhibition Centre, Birmingham, West Midlands. The Report and Accounts will contain information about this and other shareholder meetings and will be posted to investors from July 9, 1987.

Highlights of the year

- Turnover up 12.4% to £9,424 million.
- Profit before tax up 11.7% to £2,067 million.
- Dividend of 8.45p per share for the year – up 12.7%.
- Investment in the business exceeds £2,100 million.
- 90% of capital purchases from UK suppliers.

ones, and much smaller but no less important projects, like providing talking telephone bills for blind and partially-sighted customers.

We are investing in high technology, like the communications satellites which orbit the earth, and also in more down-to-earth technologies, like new telephone boxes which are harder to vandalise.

Much remains to be done. The task we face in bringing our equipment up to date, at the same time as enhancing the range of our services and achieving good results for our investors, is immense. But it is matched by our determination to give our customers the services they need.

Because – whether you're a customer or an investor – it's you we answer to.

British
TELECOM
Investing for growth

If you have any queries as an investor or if you are not a British Telecom shareholder but would like a copy of the 1987 Report and Accounts, please phone us on this LinkLine number, which enables you to call from anywhere in the UK for the price of a local call. LinkLine 0345 010707

British Telecommunications plc, 81 Newgate Street, London EC1A 7AJ. Telephone 01-356 5000. For daily information on the British Telecom share price, dial Shareline on: London 01-346 8022 Birmingham 021-246 8056 Edinburgh 031-447 0333 Glasgow 041-246 8080 Liverpool 051-488 0797 Manchester 061-246 8050 Belfast (0232) 8030 Bristol (0272) 215444 Cardiff (0222) 8037 Leeds (0532) 8038

hardly a "southern" country, yet it ranks among the poorest in the EEC. Italians consider themselves "southern", yet many of them are at least as rich as people in the north. Within the more affluent countries of the Community there are far-from-affluent regions of industrial decline.

For a more accurate idea of the pattern of wealth in the Community, look at the map of regional GDP per head. The map is based on purchasing power parities, which relate income and exchange rates to the cost of buying a specific basket of goods and services. They produce some unexpected contrasts and similarities, but show the real split in the Community to be between its heartland and its western and southern fringes.

The gap is big. GDP per head in the city-state of Hamburg is five times that of Greek peasants in Thrace, the poorest part of the Community. With the entry of Spain and Portugal last year, more than a fifth of the Community's population now lives in regions where income per head is 80% or less

of the EEC average. These include the whole of Greece, Portugal and Ireland, most of Spain and the south of Italy. The poorer areas are mostly those with high inflation and unemployment, and lots of farmers.

All this influences the way governments align themselves when the EEC tries to take decisions. On many issues, the Community is split into two camps. Call them "north" and "south" for convenience, while remembering that Ireland usually sides with the "south" and Italy is a special case. Its northern industrial economy has more in common with the Community's manufacturing heartland north of the Alps than with its own Mezzogiorno. But such are the development needs of the Mezzogiorno that on most questions of EEC spending Italy lines up with the rest of the "southern" group, which wants more of the Community's resources to be sent southwards.

The bankruptcy of the EEC budget has thrown the Community's north-south differences into sharp focus. Northern governments, led by those of West Germany,

Britain and France, which pay most towards running the Community, are refusing to hand over more. Italy, Greece, Spain, Portugal and Ireland say the way out of the mess is to enable the Community to spend more, particularly on programmes aimed at speeding the pace of economic development in the south.

Italy and the other Mediterranean countries (but not Ireland) also share similar interests on farm policy. They do not contribute to the Community's vast dairy, beef and cereals surpluses, which are the biggest drain on its finances. As part of farm reform, they would be happy to see national governments pay more of the bill for those surpluses. But when it comes to things they themselves overproduce—for example, wine, olive oil and tomatoes—they claim they are too poor to replace the EEC as paymaster. Southerners favour the recent controversial proposal for a tax on vegetable oils; most northerners are hostile because they fear it would provoke a trade war with America.

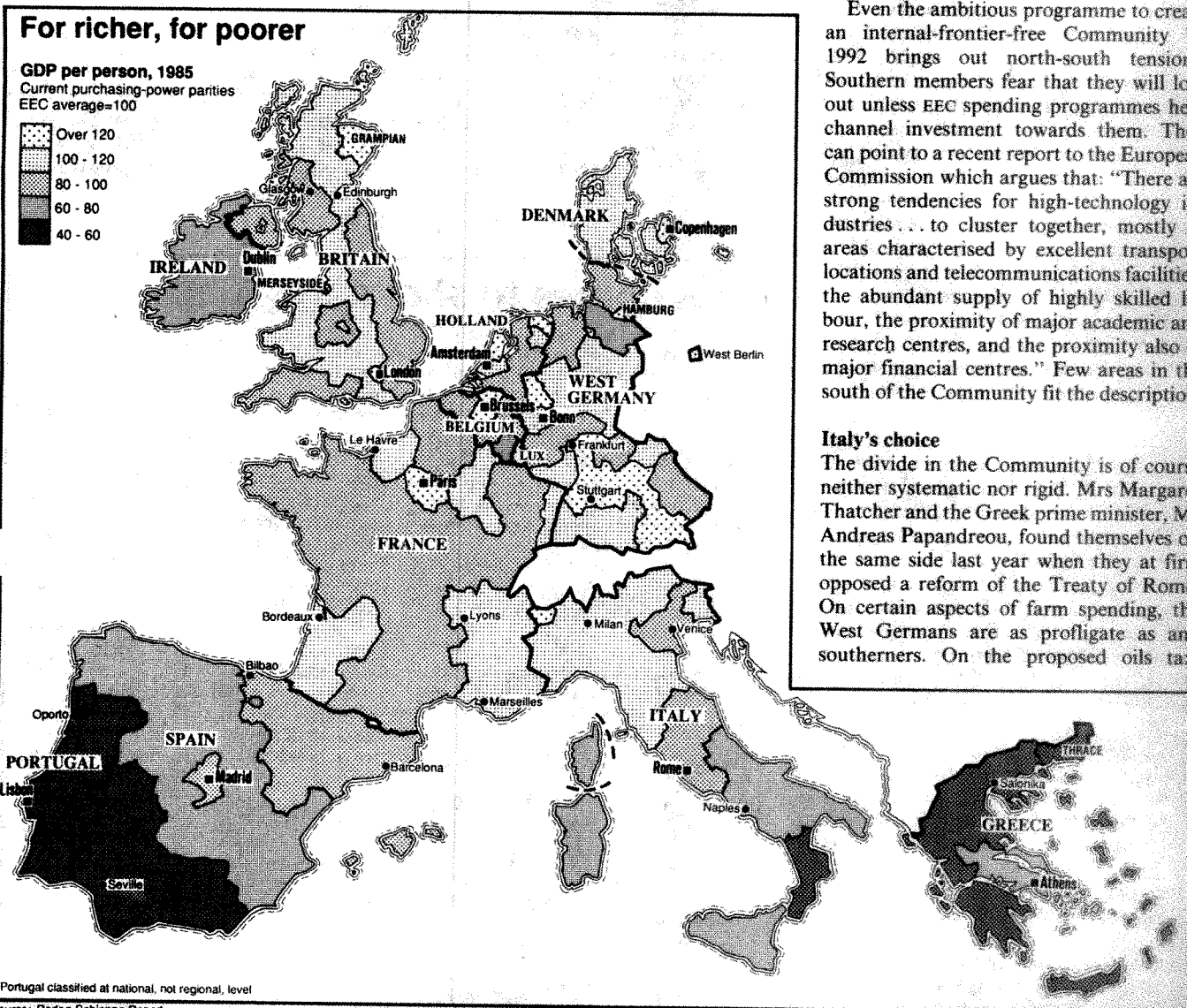
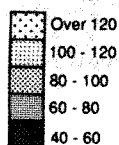
Even the ambitious programme to create an internal-frontier-free Community by 1992 brings out north-south tensions. Southern members fear that they will lose out unless EEC spending programmes help channel investment towards them. They can point to a recent report to the European Commission which argues that: "There are strong tendencies for high-technology industries... to cluster together, mostly in areas characterised by excellent transport locations and telecommunications facilities, the abundant supply of highly skilled labour, the proximity of major academic and research centres, and the proximity also of major financial centres." Few areas in the south of the Community fit the description.

Italy's choice

The divide in the Community is of course neither systematic nor rigid. Mrs Margaret Thatcher and the Greek prime minister, Mr Andreas Papandreu, found themselves on the same side last year when they at first opposed a reform of the Treaty of Rome. On certain aspects of farm spending, the West Germans are as profligate as any southerners. On the proposed oils tax,

For richer, for poorer

GDP per person, 1985
Current purchasing-power parities
EEC average=100



EUROPE

France stands against its northern partners. Still, a north-south polarisation exists, and may get worse. The small reform of the Rome treaty (despite the early opposition of Mrs Thatcher and Mr Papandreu, and many later hitches) is about to enter into force. One of the unforeseen consequences of the new voting rules that are a main part of the reform will be to reinforce north-south differences. Countries opposed to specific EEC projects cannot now in many cases veto them alone; they need allies to form a blocking minority. This is likely to lead to more rich-poor—and hence north-south—splits. Under the Community's weighted voting system, the "southern" countries (including Ireland and Italy) have enough votes between them to block any proposal they object to.

Without Italy, however, the other "southerners" are just short of a blocking minority. So the Italians are in a pivotal position. Of the southern tier, they have by far the strongest economy. Northerners may want to woo the Italians to their camp.

Moves from the poor group to the richer one have already taken place, as members' real or perceived interests have changed. Britain hovered on the rich-poor divide in the early days of membership until the arrival of Greece, Spain and Portugal lowered the average level of prosperity in the Community. France championed southern interests until even "southerner" countries came in. Their arrival also helped to transform France into a net contributor to the EEC budget, a burden it shares with northerners like West Germany and Britain.

When economic growth was strong in the 1960s and early 1970s, regional disparities in the Community narrowed. They started widening again after the price of oil rose in 1973. The EEC set up its regional development fund to transfer resources from rich to poor in 1975. It has spent more than 16 billion ecus (\$18 billion) since then, with Italy and Britain as the biggest overall beneficiaries. But by head of population in areas eligible for aid, the biggest recipients have been Ireland (247 ecus per head), followed by Greece (235 ecus) and Italy (223 ecus). Because richer governments have also insisted on getting their share of grants, resources from the regional fund have been too thinly spread to have much effect.

The European Commission has added a new word to Eurojargon to describe its latest scheme for remedying regional imbalances: it calls this "cohesion". The commission wants to double the amount of money the Community spends on regional aid, and it wants to direct the money to the worst-off regions. Four-fifths of it would go to the five poorest countries plus Northern Ireland, the rest to areas of industrial decline.

Rich governments, which hold the purse-strings, do not want spending to rise. They

say the Community should make better use of the resources it already has. But unless the south gets a little bit of what it wants, the northern countries may not get the more disciplined budget they yearn for.

Hungary

Kadar the cautious

FROM OUR CENTRAL EUROPE CORRESPONDENT

After 31 years at the top, Hungary's 75-year-old party boss, Mr Janos Kadar, still insists he has no plans to resign. His immortality is a mixed blessing for Hungarians. The energy that still goes into balancing off the different contenders for Mr Kadar's job is no longer matched by a will to tackle the economic problems—including a hard-currency debt that is getting worryingly worse—which his successor will inherit. Just who the unlucky winner will become is not a whole lot clearer on June 23rd, after yet another bout of musical chairs at the top.

Two names are balanced on the tip of every Hungarian tongue. One is that of the ambitious Central Committee secretary for ideology, Mr Janos Berecz, who finally made it into the Politburo this week. His detractors say that his ambition is all too obvious, and his hardish line on ideology and culture has not made him popular among the country's thinking classes. But

his latest promotion has increased his chances of getting the top job.

The other man-most-likely is Mr Karoly Grosz. Party boss in Budapest since 1984, he has just been made prime minister, in place of the ailing Mr Gyorgy Lazar. Mr Grosz is not much more popular than Mr Berecz, and his stint in charge of Budapest was unremarkable. But he is a pragmatist who seems to accept that Hungary's economic reforms cannot be pushed back. As prime minister he will have to show whether he is prepared to push them forward. In most communist countries, running the government is not a stepping-stone to running the party, always the more important post of the two. Yet his new job will broaden his experience.

What the latest reshuffle did not do is bring in the younger and brighter people the economy needs. Mr Ferenc Havasi, who had been in charge of economic policy in recent years, now takes over Mr Grosz's old job as party boss in Budapest. That looks at best a push sideways; Mr Havasi has had to take a lot of criticism in recent months about Hungary's poor economic results. The ill Mr Lazar has replaced Mr Karoly Nemeth as Mr Kadar's assistant. That may be a reward for loyalty. So, probably, is Mr Nemeth's elevation to the ceremonial job of head of state. All in all, a disappointing affair. "It lacks courage and decisiveness," was how one party member put it. Hungary badly needs both.

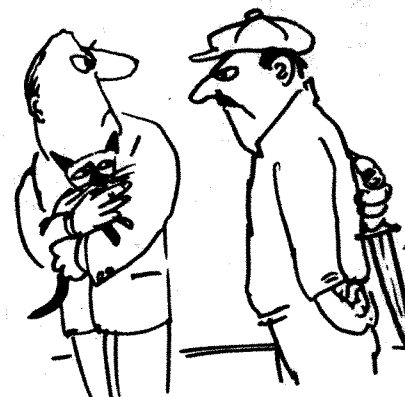
Puss comes to shove

Pluralism has come to Hungary. True, it is not exactly political pluralism, but it is a small revolution for the Hungarian cat world. A split has developed in the Association of Hungarian Cat-Lovers and Cat-Breeders, amid accusations that the organisation is trying to wipe out thousands of pedigree cats for the sake of bigger profits. Several members have resigned and set up a rival club.

In the centre of the row is an old aristocrat: the Siamese variety of cat, with its pointed ears and triangular face, whose

origins can be traced back to Thailand. The development in recent years of Siamese with sleeker bodies and longer noses has reduced the commercial appeal of the more traditional sort. The Hungarian association, which derives much of its revenue from the breeding and export of pedigree pussies, decided to switch its attention to the more lucrative cats of the future. Declaring that Siamese cats must be "brought up to modern standards", it ordered the castration of the traditional Siamese males.

Some outraged members claimed that this amounted to "genocide", and promptly stormed out in protest. The two sides have since been exchanging insults over Hungary's state-controlled airwaves with the verve of rival politicians. The defectors are branded as conservatives standing in the way of progress. They retort that the association is failing in its duty to defend the right of all cats to live, irrespective of race, creed or colour. Their compassionate appeals have found many supporters in a nation of cat-lovers. After all, in 1983 Budapest became the first capital city after London to stage Andrew Lloyd Webber's musical "Cats", which has been playing to packed audiences ever since.



BRITAIN



There's plenty still to do

Revive the inner cities. Reinvent private rented housing and let council tenants choose new landlords. Replace domestic rates with poll tax. Let schools opt out of council control. These are the themes of a Queen's speech that shows Thatcherism still has plenty of targets

Amid a revived economy, Britain's decaying inner cities are the worst blot on eight years of Tory government. Several new bills aim to wipe it away. Yet the key to reviving the cities is not housing, not rates, not even schools, let alone the militant left which Mrs Thatcher in her moment of triumph suggested was the real problem. It is jobs. That at least is the conviction of Lord Young, who has taken part of the bulging inner-city portfolio—plus his deputy and cabinet colleague, Mr Kenneth Clarke—with him from the Department of Employment to that of Trade and Industry (DTI) to lead the revival.

Happily, he is right. The "loony left" should prove no obstacle. Though it figured much in Tory campaign propaganda, it is a rare, largely London, phenomenon—and even the farthest left knows which side its voters' bread is buttered. Lord Young has

said he will work with any council that will work with him. He will find plenty.

Working together in government may not be so easy. Until now, Whitehall's main inner-cities arm has been the Department of the Environment (DOE). It will not lightly share leadership. Nor does Mr Nicholas Ridley, reconfirmed at the top there, see eye to eye with Lord Young. A clash is already in prospect over a notion favoured by Mr Clarke—and by many Labour councils—that the public sector should give priority for inner-city jobs to inner-city residents. And though both secretaries of state know that private enterprise is the real wealth-creator, they will be competing for the public cash that eases its path.

Lord Young and Mr Clarke have inherited plenty of cash at their new department, but neither cash nor apparatus specifically aimed at the cities. They have brought from

The bullets

Top priority in the programme of legislation for this first, longer-than-usual parliamentary session goes to the three bills (discussed on other pages) which the government sees as crucial to the inner cities: education, housing and rates reform. Once the spillover business from the last session is out of the way, these will be the first to be introduced.

The main spillover bills will be:

- **The finance bill.** Reintroduction of the details of the March budget.
- **Criminal justice.** The revived bill will allow the confiscation of assets from highly profitable crimes, increase maximum penalties for firearms offences, strengthen compensation for victims and abolish peremptory challenge of jurors.
- **Local authorities.** Measures dropped from bills in the last session, or which never got into them, will reappear. Contract-compliance clauses and "propaganda on the rates" will be banned, wider tendering for services enforced.

After the inner-city bills, expect bills on:

- **Youth employment.** This will withhold benefits from school-leavers under 18 who refuse a guaranteed place on the Youth Training Scheme, or who quit without good cause.
- **Trade unions.** This will make union elections more democratic, give individual unionists more rights, set up a union ombudsman, protect members unwilling to join a strike and non-members unwilling to join a union.
- **Immigration.** Loopholes such as the ones that allow a man to bring more than one wife into Britain, or let people stay in Britain pending an appeal, will be closed.
- **Liquor licensing.** Allow publicans more flexibility in opening hours, though not (alas) on Sundays.
- **Water privatisation.** Paving the way for the selling-off of the water authorities.
- **Farm woodlands.** Encourage the planting of trees on agricultural land—with any luck, broadleaf rather than conifer.

Also promised are bills on legal aid, copyright and intellectual property, social security, housing and education in Scotland and merchant shipping.

Most of the legislation in the Queen's speech was foreshadowed in the Tories' manifesto. Only two items in the manifesto are clearly missing: freer Sunday trading (on which the Thatcher government last year suffered a bruising defeat) and broadcasting. But why, in a 15-month session, is there nothing on the National Health Service?



Brixton burned

their old department the 16 task forces working in small areas of various cities. But these, in terms of money or people, are peanuts. And the big money at the DTI goes to regional and general industrial support (planned at £275m this year), or specific industrial support of many sorts (£475m): a total of £750m that may directly benefit inner cities or may not.

Quite often it will not. For instance, though some large cities lie in areas entitled to regional aid, most companies prefer a greenfield site for a new plant, near a city maybe, but not in it. More precise targeting, new channels for the money and new machinery will be needed. Lord Young will note the examples of the Scottish and Welsh development agencies (£135m, net, between them), and especially the way the Scottish one levers in private capital.

So the DTI will set about the inner cities with two cabinet ministers but unsharpened tools. In contrast, the DOE has only one such minister, but tools well tried, well financed and increasingly well operated.

The bulk of DOE money reaching inner cities gets there via the normal Whitehall grant to local councils. That has shrunk. But the DOE itself will spend £450m this year on the cities. Most, £230m of "urban programme" (plus £90m from other ministries), goes in various measures to improve the worst-off areas. Derelict land clearance, mostly in cities, gets £80m. Urban development corporations get £125m, part for the old pair, London docklands and Merseyside, part for four new, more modest, ones just born, in the Black Country, Greater Manchester, Tyneside and Teesside.

Urban development corporations, which can walk over local councils, are the DOE's favoured tool for getting things done. The way the new ones operate will deserve watching. Mr Ridley has little time for local

councils. The London docklands corporation has succeeded splendidly, in its terms, by riding roughshod over them. But the DOE has lost another council-basher, Mr Rhodes Boyson; and Mr David Trippier, Mr Ridley's new junior for inner cities, may prefer partnership. So too, on today's evidence, will the new development corporations. If so, now that even hard-left town halls know they must go on living with a Tory government, the sniping might cease. Except, perhaps, in cabinet.

Schools: you at the back, wake up

Nowhere is the government's desire for speedy radicalism more obvious than in education. In a single wide-ranging bill, it plans to break the local-authority monopoly of public education, devolve power from administrators to headteachers, and introduce a nationwide core curriculum.

Even if all goes smoothly, that will require ample time in an already crowded parliamentary timetable. But most of the bill's proposals are only weeks or months old, and will have to be refined in committee. The timing is tight: the government hopes to have the bill well under way by Christmas.

The real challenge will be not to get the proposals through, but to put them smoothly into force. They face the strongest opposition to such important legislation from a professional group since the doctors fought the National Health Service 40 years ago.

Before the election, Mr Kenneth Baker, the education secretary, spoke in conciliatory tones of the need for teachers' co-operation in introducing the new curriculum. The sheer scope of the new proposals, though, will renew their unease. Mr Baker will need all his public-relations skills to keep parents and public on his side.

The parts of the bill that reduce local authorities' grip on schools will be widely opposed by many professionals out of simple self-interest. Plans to let schools opt out of local-authority control, and to let good ones expand regardless of council policy, are opposed not only by local councillors and town-hall officials but also by many teachers and headteachers who find the present arrangement more cosy. Some heads do not want more power: they say they understand education, not budgeting.

But the debate is not just about who controls schools. During the campaign, Mrs Thatcher revived the issue of selection when she said schools "opting out" would be free to choose their pupils. Her critics fear that the poorest children, from the least-motivated homes, will be left behind in local-authority "sink" schools.

Mr Baker argues that it is the deprived inner-city areas where schools have been badly run that may benefit most from opting out. He has so far had a mixed reception in those areas. Tottenham Par-



They'll both have to co-operate

ents' Group, though it campaigns against the "anti-heterosexual" policies of Haringey council in north London, believes that opting-out would just cause more confusion. But some parents in Brent, another left-wing London authority, are already considering opting out. So far the idea has had most support from suburban grammar schools under threat from Labour and Alliance councils.

Once Mr Baker's bill is on the statute book, he will need the co-operation of some teachers, at least, if it is to lead to better teaching. Much of the legislation, on the national curriculum in particular, will be in an "enabling" form—it will have no effect until the secretary of state lays orders in Parliament on each of its provisions.

From the teachers' point of view, an early test of Mr Baker's willingness to listen to them will be the way he decides to formulate the national curriculum. He may be tempted to short-circuit consultation by selecting his own advisers, just as he short-circuited the cumbersome Burnham machinery to impose a pay settlement on the teachers' warring unions. In contrast, he could make good use of the expertise of local-authority curriculum advisers, who have spent the past decade devising ways of making school more relevant to the average child. There is, after all, wide agreement between government and professionals over what should be taught. Even the much-maligned Inner London Education Authority agrees on the importance of reading, writing and arithmetic.

Housing: from public to private

The new housing bill, guided by Mr Ridley's former "green" minister, Mr William Waldegrave, could prove a mighty weapon against council power (though not automatically against inner-city squalor). Or it

could prove a damp squib. All will depend on the way council tenants, and potential landlords, whether housing associations or private-sector, react.

Tory ideas were described in unusual detail in the manifesto. Tenants of council houses will be able to opt for new landlords, from a list approved by central government. Tenants of flats or maisonettes will only be able to do so collectively; if a few in one building prefer to stay with the council, it will remain the lessee of their homes while they thus become sub-tenants.

Will tenants opt out? Will landlords want them? Tenants will retain security, and the right to buy. This will reassure tenants but deter commercial landlords. Even housing associations—many, though not all, of which are subject like councils to right-to-buy—do not like it.

Rents, in contrast, will be for negotiation. That could mean rent rises, unless the new landlords pay low prices, or are subsidised. In inner London, even after heavy central subsidy to the council, rent rolls meet only about 70% of councils' housing costs; only 70-90% in many urban areas of the provinces and in Scotland. So commercial landlords seem unlikely to be attractive or attracted. Much will depend on the prices that councils, forced sellers, are allowed to stick out for; on the speed with which council rents themselves are forced up, as the government also plans; and, most of all, on flexibility in the central subsidy allowed to housing associations.

The other half of the bill, widening private-sector rental, seems sure to have a real effect. This will free two varieties of new letting: "shorthold", with limited but reasonable return for the landlord, and fixed length of tenure; and "assured tenancies", the converse, with negotiated rents but security of tenure. Housing associations are eager to use assured tenancies. Commercial or small private landlords will weigh their old fear of a future Labour government against a new realism evident, not widely advertised, in that party.

There is no doubt of the inner-city potential: even under present rules, housing associations in Glasgow have proved it. The issue is how much effort and money, notably private money, is put into realising it.

The economy

Better is worse

Once upon a time, news that the economy was booming would have cheered financial markets. Now, those City folk predicting the fastest growth tend to be the glumest. Before the election, strong growth was good news because it boosted Tory prospects; now, some money men fear the economy is overheating and that demand may spill

Public and private

The new waterfront houses are selling before a brick is laid. The new 165-room hotel opened on June 19th. The first of the new dockside office blocks is ready for letting and in part under offer. The eight-screen cinema is showing already, the first yachts already moored at what will be the new marina. The Thames? The Solent? No, these are the former docks numbers 6, 7, 8 and 9 on the Manchester ship canal as it flows through, yes, Salford.

Salford Quays, as the site is now known, is the most striking symbol of revival amid the decay round western Manchester—and of the no less striking partnerships that are producing it. They involve three very different Labour-run district councils, a Tory-inspired urban development corporation (UDC), a private-sector group trying to ginger up urban growth, and, of course and most important, private-sector developers with real money behind them.

The three districts are: Salford, rock-solid old-style Labour, stretching west above the canal from the crumbling edge of central Manchester; Trafford, south-west and below the canal, a hung council since 1986 but Labour-run; and Manchester itself, controlled by the Labour left.

Some 400 acres of Salford's industrial waste on the northern edge of the canal have been an enterprise zone since 1981. The council leaders, over some party opposition, welcomed this, as a lure for investment. But the council bought the 150 acres of docks itself, and kept them out of the zone. This is Salford Quays. Its success and that of the enterprise zone, where nearly all the sites have been taken up, show how an enterprising council can help the private sector make profits for both.

Trafford, too, got an enterprise zone in 1981, covering parts of Trafford Park, the huge inter-war industrial estate south of the canal. But that was not enough. Jobs on the estate—over 50,000 in the early 1960s—went on shrinking, fast. By 1985 only 24,000 remained. The then Tory council proposed that a UDC be set up for the whole of Trafford Park. Whitehall agreed, but wanted its borders spread wider still, into Salford and Manchester.

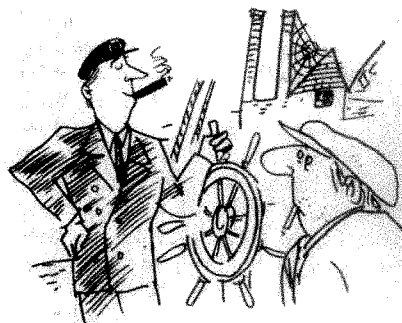
How would Labour react? In May 1986, the party won power in Trafford. Many Labour councils, as in London docklands, detest the UDC concept. It is a device, they say (correctly), for transferring local control from the elected council to a quango, with Whitehall money which, they say (wrongly), they could spend better themselves. As formal announcement of the UDC drew near in late 1986, Manchester proposed a common front against it. Trafford's new Labour leaders disagreed: no way would they reject government spending of maybe £20m a year.

Salford also disagreed. It wanted no UDC trampling over it. But it did want Trafford Park revived—many Salford citizens work there—and was happy to let Whitehall pay

for new road links across the canal and, farther west, for improving an abandoned steelworks site. So, last February, the UDC was born, taking in narrow strips of Salford's canal-side and the steel site.

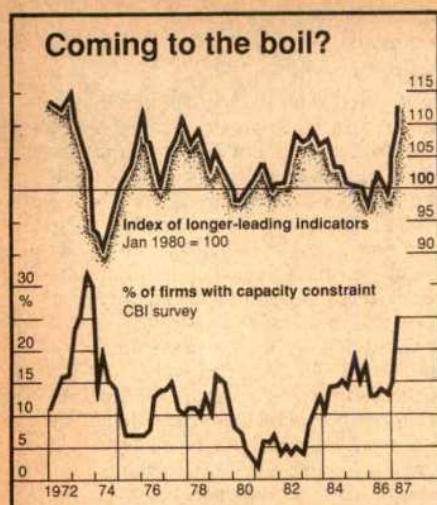
The only trouble since then has come from central government. Penny-wise and pound-foolish, Whitehall initially hoped to find chief executives for this and other new UDCs at only £36,000 a year. The money attracted few really good private-sector candidates, and even the many from the public sector were less than dazzled. But Trafford UDC has found its man, though by mid-June it still had not officially named him; a delay that some regret, though the reasons are routine enough, given the investor interest the UDC has aroused, and the workload before it—strategic choices like whether to allocate a big greenfield site for a shopping centre or reserve it hopefully for manufacturing, sites to assemble, roads and services to install, hundreds of acres of dereliction to clear.

Manchester council is the odd man out in this story—but less odd than you would think from the tales of a hostile press. It is, indeed, left-wing, and up to its waist in creative accounting. It did last year prepare a local employment strategy centred



on the public sector. It wanted no part of the UDC, and got none. Yet private development is welcome, with a few exceptions such as multi-storey car-parks. The council works well with the revived chamber of commerce and the private-sector (and Whitehall-backed) "Phoenix initiative", a group set up by the construction industry to encourage urban redevelopment.

This group is concentrating on the run-down but not derelict southern fringe of the city centre; the sort of area with potential but where no developer likes to go in alone. Phoenix, which has also started work in Salford, aims to bring site-owners together with each other and with developers. It will also put together applications for Whitehall's new urban-regeneration grant. This kind of "cashless UDC", with no wish, power or money to trample over local councils, is one that left-wingers can work with. A new Tory government ready, it says, to work with them if they are ready too, should watch the Manchester experiment with interest.



over into higher inflation and imports.

Some warning lights are indeed flashing. House and some share prices show advanced symptoms of overheating. Although financial innovation may muddle the figures, it is hard to ignore the explosion in bank lending, which last year grew faster in real terms than at the peak of the Barber boom in 1972.

Consumer spending is buoyant, housing starts went up 21% in the year to March to a record level, GDP is growing at an annual 3½%. The latest CBI survey of manufacturers suggests growth could accelerate: order books are bulging, and far more firms expect output to rise over the next four months than to fall. The official index of leading indicators (like share prices, interest rates and housing starts, which give early hints of what GDP will do) has risen more steeply during the past six months than at any time since the early 1970s.

The City has started to fret about labour

shortages; the 64,000 drop in seasonally-adjusted unemployment in May was the biggest ever, so some economists fear higher pay rises. The underlying rate of increase in average earnings rose to 7¾% in the year to April, from the 7½% it has stuck at for most of the past four years.

How long until there are bottlenecks? The CBI survey suggests stocks are dangerously low: for the first time, more firms said stocks were inadequate than the reverse. Capacity constraints are appearing: some 25% of firms expect output to be limited by shortage of plant and machinery over the next few months, the highest proportion since 1973. Though manufacturing output is still 5% below its 1979 peak, much machinery has been scrapped since then, and much new investment has been labour-saving rather than capacity-expanding.

If a capacity constraint begins to bite, higher nominal demand will be met by higher prices and imports instead of by a rise in output. There are signs this is already happening. During the past six months, producers have raised output prices at an annual rate of 4.8%, compared with 2.2% in the previous six months, even though unit costs have been falling or flat.

So some economists foresee rising inflation and a growing trade deficit, unless the government tightens up. Rubbish, say others: it is these glum economists, not the economy, who have become overheated. As the world economy slows, Britain's biggest risk is recession, not inflation.

This second group argue that fears about capacity are overdone. Less bolshie trade unions mean fewer restrictive work practices which allows manufacturers to use equipment more efficiently. Firms can operate at a higher level of capacity utilisation than in the past. These optimists say that

the speeding up in earnings reflects higher overtime payments rather than a rise in settlements. Basic pay settlements in manufacturing have slowed during the past year. Unit wage costs—perhaps the best advance indicator of inflation—have risen by only 1% during the past 12 months, compared with 8% in the year to the first quarter of 1986. True—but, stripped of the cyclical rise in productivity, unit wage costs may still be rising at an underlying annual rate of 4%.

One of the classic signs of overheating—a surge in imports—is missing. The volume of imports of manufactures was 6% lower in the three months to April than in the previous three. For some, the clincher is that it is nonsense to talk of the economy overheating when there are 3m unemployed. There they are wrong. With Britain's arthritic labour market, it is possible for 3m to shiver while the economy boils.

Civil servants

Match point

Only one thing stands between the government and victory over its disgruntled civil servants: a strike ballot, due to be held next month. So far, all but two of the civil-service unions have settled this year's pay; one has made a long-term deal. Of the two whose members were on selective strike, one has given up for the moment. The government has said it will impose a pay deal on them two percentage points below the rise of average wages by simply putting the money into July pay packets. And it has threatened a tactic that would cripple the finances of the CPSA clerical union. It seems to have won every point. Now it has to hope that CPSA members reject an all-out strike, or that the strike crumbles quickly if they don't.

The government's most powerful threat is to end the system whereby the CPSA gets its members' subscriptions knocked off salaries at source. To do so, it need only insert into the code of civil-service pay and conditions a clause saying the system may be changed. It has threatened to do that before—notably in 1983—but has never acted. If it does this time, the union will be in trouble.

Without the "check-off" system, as it is called, the CPSA will have to send its officials round to collect subscriptions manually; and afterwards it will have to sign the members back in one by one. The threat is a powerful deterrent against calling a strike ballot. So it is meant to be.

The imposed pay rise is unusual, too, for central government. Public-sector pay deals are often delayed. As a result, the first rise, back-dated for several months, is a big one—and a sweetener which managers



It all looked so easy for Lawson at budget time

across the public sector have used to bypass union objections. So far this year, miners, railwaymen and teachers have all been given pay rises their unions did not want them to accept. The civil servants will find four months' money in their first new pay packets. Never before has the government done this against the wishes of the union.

The Treasury's new toughness has left the unions puzzled. One reason for it is the CPSA's political chaos. Neither the executive (dominated by far-left Militant supporters) nor the moderate general-secretary is in a position to negotiate. The government is taking advantage of their weakness. Union extremists, the chancellor must be thinking, have their uses after all.

Job schemes

Work, train, or else

It is hard, but slowly more young people are getting more jobs. Mr Norman Fowler's new job is to help them do so faster. Already he is finding it hard too.

His immediate problem as employment



Young man, new job

secretary is a Conservative manifesto commitment to withdraw benefits from the youngsters who refuse places on the Youth Training Scheme (YTS) or leave without a good reason (as last year about 100,000

did). Pressure groups are up in arms: the rule could be a step towards a "workfare" system that forces claimants to work for their benefits. That is precisely why some Tories like the idea. They are not alone: even Beveridge, patron saint of the welfare state, thought going on a training scheme would be a fair condition for drawing money.

Mr Fowler's real trouble is not criticism, but the minutiae of putting the manifesto into effect. A quarter of teenage workers are in part-time jobs, and half of those jobs are temporary. Will youngsters between one job and another be denied money? Some of the YTS placements offer little training, and are barely more than ill-paid drudgery. What will happen to those who leave in disgust? And will unemployed 16-year-olds who are now allowed to finance their education with benefits be able to do so no longer?

These questions put Mr Fowler in a pickle. His officials have suggested an Australian-style job-search allowance that would give young people a little money while they looked for a job. That could become a quiet let-out clause for a return to

Playing the game

Wimbledon's rainy Monday delayed the first fixture of the government's youngest new player. Before the tennis championships even started, a television station had booked an interview with the sports minister, Mr Colin Moynihan (who is three years Jimmy Connors' junior), for the day when the last British player is knocked out. The subject of the interview is now as traditional to Wimbledon as strawberries and cream: why do British sportsmen and women not do better in international competitions?

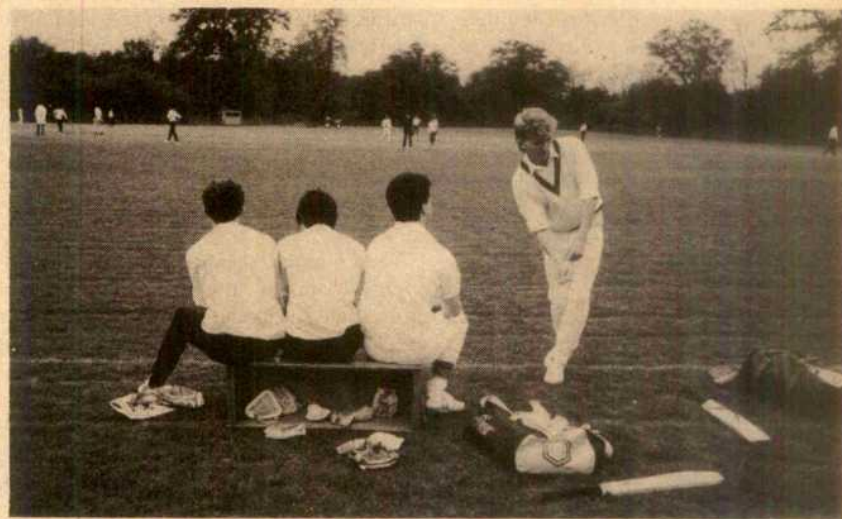
The answer, say most sports governing bodies, is that schoolchildren are not taught to play games well. They complain that schools have lost interest in competitive sports, that lack of cash is forcing them to sell playing-fields and that fewer teachers help with after-school activities.

Warnings of a decline in sporting standards have been heightened in the past year by scare-stories of left-wing school authorities banning competitive sport entirely. Some of these stories were wrong: for instance, a primary-school headmistress banned the egg-and-spoon race not because it was competitive but because the children's parents were coaching their sons and daughters to cheat. The Inner London Education Authority has been so keen to reverse its anti-competition image that it has organised a pupil "Olympics". The teachers' strike did reduce weekend sports fixtures, and some schools with falling rolls have sold playing fields—but none of these things could have affected the standards of today's adult competitors.

A longer-term factor may have been a change in teachers' view of physical education. In the past, schools prided themselves on their prowess in the mainstream sports like rugby, soccer and cricket. They geared their PE lessons to producing team success in them. Today's educational wisdom, shared on the whole by the government, is that that approach was too narrow, giving a lot to physically able males and not much to anyone else. A more varied programme including gymnastics and minority sports like squash and table-tennis has become the norm. The recent announcement of an A-level in sport (one-third practical, two-

thirds theory) caused widespread incredulity, but the rapid growth of leisure industries has inclined many schools to look at PE as a more serious subject.

The government recently convened a forum of interested parties to discuss the future of sport in schools. Participants include people who think that the nation's spirit is being sapped by too little football, and others who are all in favour of mixed aerobics. Like most such talking-shops, it will change little. But one useful step might be to build stronger links between schools and sports clubs, whose membership has been rapidly growing as opportunities for children to stay on for the after-school football match have declined.



Favoured few, growing fewer

BRITAIN

the old system of benefits for all who claim them—which would upset Mr Fowler even more. With his own future employment to think of, he does not want to look wet.

Mr Fowler is on another collision course with the trade unions. He plans to give employers, but not trade-unionists, twice as many seats on the Manpower Services Commission (MSC). That will hardly affect the way it is run, since its chairman, Sir Bryan Nicholson, gets unanimity when he can. But the unions are furious. They have already lost one battle—over a new scheme that provides training, but no extra money above benefit rates, for unemployed adults—and have walked out of it. Now they are talking of leaving the MSC itself.

Child abuse

Well, maybe

Slowly but surely, one of society's last great taboos is coming out of hiding: sexual abuse of children. The symptoms? A big jump in the number of sexually-abused children on child-protection registers. The National Society for the Prevention of Cruelty to Children, which keeps about a tenth of British registers, reported an increase of 126% between 1984 and 1985; the 1986 figure will probably double again. Child-line, a telephone-counselling service started last October, now has 14,000 cases on its books, a third of them for sexual abuse.

This does not prove that there is more sexual abuse of children. It was Americans, ever enthusiastic, who first decided there was an epidemic of it in their country. The British, as ever, followed suit. So now there is greater awareness and vigilance among doctors, social workers and relatives, and therefore more abuse reported. True, some social changes may be increasing the risks. More divorce, for instance: over a third of cases occur where children live with a stepfather. But some evidence points the other way: for example, numbers of children in care have been falling for several years, as have convictions for incest.

Now, for the first time, a group of parents is concerned that the national crusade to root out the sexual abuse of children may be going too far: and that the professionals may have become too much concerned with children's welfare at the expense of parents', so that abuse is alleged where children were not in fact abused at all. That is what is being said in Middlesbrough, where since April some 200 children have been referred to the local social-services department for care because they were believed, mainly by a new paediatrician at a hospital there, to have been sexually or otherwise abused.

Many of their parents are furious. They say that the consultant, Dr Marietta Higgs,

jumped to conclusions following cursory and uninvited examinations. In many cases, they claim, nobody interviewed either relatives or the children themselves. They point out that these referrals have led so far to just two prosecutions. They want their kids back. Under pressure, the local health authority has called in medical experts to offer second opinions.

The signs in this particular instance are that the doctor may have been too hasty: she should have tried harder to get the children to talk. Child-care professionals say children hardly ever lie about sexual abuse: the problem is persuading them to talk at all, not deciding whether they are telling the truth. Dr Higgs remains unabashed. Her diagnosis of abuse was done in the "utmost professional manner", she claimed on Wednesday: she is an expert and had sought a second opinion when she had any doubts.

Most sexual abuse of children still remains undiscovered. Too many children and relatives are unwilling to admit even to the possibility of its existence. When there are prosecutions, it is difficult to secure convictions even in the clearest cases, because children—many of whom feel as guilty as the perpetrators—perform badly in the witness box. That should now change. New legislation will allow the use of videotaped evidence, including recordings of initial police interviews. And the police may adopt the American practice of confronting alleged molesters with the video evidence to help elicit confessions.

London theatre

Stage fright

London's theatres are having a hard time. Well, some of them are. Seven West End plays have closed in the past month. Several others are holding on only until new shows can be rushed in. Parts of the subsidised theatre are in bad trouble: the Royal Shakespeare Company (RSC) had a disastrous season at London's Barbican Centre last year, with ticket receipts 50% below budget. Takings have picked up since, but the company has debts of £1.1m. It may have to pull out of the Barbican or Stratford to survive.

Yet London's theatre as a whole is still popular: annual attendances have risen more than 1m in the past four years, says the Society of West End Theatres. But rising ticket prices have meant fewer regulars—who are happy to see serious or experimental plays. Their place has been taken by first-timers and tourists. The number of American theatre-goers in London has risen by 70% since 1982.

Tourists and first-timers prefer to go to shows that have just opened or to comedies,

detective plays and popular musicals like "Les Misérables" and "Starlight Express". They are less well-informed and adventurous than regulars: they want something they can be pretty sure to enjoy. So serious plays are finding it harder to survive—unless they star big names, who can sell anything.

When he announced a new season of plays at the Old Vic earlier this month, Dr Jonathan Miller growled that tourists' philistine tastes have turned London's West End into a cultural wasteland. He doubts that any of his own brave selection of plays, by obscure authors like Ostrovsky, Lenz and N.F. Simpson, would ever be seen in the West End. Actually, the Shaftesbury Avenue theatre owners would love to have any of Dr Miller's productions if they thought they would make money. Their



Starlight Express will skate and skate

first duty is to keep their theatres open. The recent closures are a warning against taking too many risks. So is New York's experience: nearly half Broadway's 38 theatres are currently "dark".

Things are not as bleak as Dr Miller supposes, although the West End does have to adjust to a new kind of audience. Lovers of serious plays are already surfeited by the subsidised theatres—all of which need to avoid the RSC's mistake of having a tedious repertory. Several promoters see signs of regeneration in the West End, and believe that straight plays just need to be geared to contemporary themes. "Serious Money", a play about the City, was a huge success at the Royal Court, in Chelsea, and is soon to transfer to the West End.

Critics have predicted the demise of British theatre for most of this century. As George Bernard Shaw once said, "It seems the theatre is always at a low ebb".

BUSINESS THIS WEEK

America's net **foreign debt** more than doubled to \$264 billion in 1986, widening the country's lead as the world's biggest debtor.

Italy's Olivetti introduced a new range of **personal computers** to counter the new PS/2 machines from IBM.

Volkswagen signed to build Toyota-designed pick-up trucks in Hanover in a joint-venture deal. A leaked auditors' report cleared Volkswagen's existing management of blame for \$259m of currency losses.

British Aerospace landed a \$1.5 billion deal to sell up to 72 cargo versions of its 146-QT to TNT, an Australian-based overnight delivery and transport group.

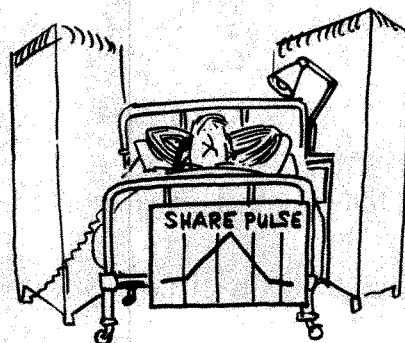
In its first big **privatisation**, the Austrian government plans to sell 25% of OMV, the national oil company, in November.

North American **stockbrokers** dealing with institutional clients earned an average of \$227,412 each last year, 14% more than in 1985, on the reckoning of the Securities Industry Association.

Britain's Lloyds Bank withdrew from the booming **Eurobonds** market. Its operation was too small to be profitable.

The Philippines government, in its

first full privatisation, sold the **Commercial Bank of Manila** to Bank of Boston and a local consortium for \$25m.



The shares of Dayton Hudson, an American stores group, soared on a \$6.8 billion **hoax takeover bid** from David Herrlinger, a Cincinnati investment manager. Arbitrators lost \$20m or so. He was sent to hospital by his family.

Options trading will begin on the Paris bourse in September.

Pearson agreed to sell Bracken House, the headquarters of Britain's **Financial Times**, to Japan's Ohbayashi Corporation for \$230m.

Akzo, a Dutch chemicals and fibre group, bought Stauffer Chemical's **specialty-chemicals** business from ICI for \$625m. ICI recently bought Stauffer from Unilever.

In a two-part privatisation of BAA, the operator of **Britain's main airports**,

up to 25% of the company will be offered for tender and the remainder at a fixed price. The sale could raise \$1.8 billion.

Karl Otto Poehl was reappointed as president of the Bundesbank by the West German government.

Britain's Independent Television News sold its **World News** cable television programme to Japan's NHK.

Fiat, an Italian car company, plans to invest about \$150m in a vehicle-assembly plant in **Algeria**.

Greyhound Lines moved to become the last remaining national bus line in America by buying Trailways. Unless the regulators block it.

Japanese companies are poised to make \$4.27 billion-worth of **equity-warrant bond issues** in the Eurobond market in the first half of July.

A court awarded damages of \$50m against **Bank of America** for the bad financial advice it gave a tomato farmer. The bank is appealing.

Lloyd's of London said 96% of the members of its PCW insurance syndicate have agreed to a settlement of their \$380m losses.

Economic and financial indicators are on pages 107-108.

Corporate scorecard

Company	Period	Net profit \$m*	% change on comp period**	Sales \$m*	% change on comp period**	Comment
Borland	Y Mar 31	5†	-46	30	+8	Increased costs for new programs cut the American computer-software company's profits.
Cable & Wireless	Y Mar 31	507†	+15	1,360	+1	The British communications company said profits would have been higher but for volatile exchange rates.
Hambros	Y Mar 31	91†	+40	—	—	Estate-agency business helped boost the profits of the British financial-services group.
National Semiconductor	Y May 31	(25)	(-73)‡	1,890	+26	A general recovery in the chip market helped the American company to reduce its losses.
Racal	Y Mar 31	150†	+11	1,930	+2	Strong growth by the British electronics group's communications and security businesses contributed most to the higher profits.
Rheinmetall	Y Dec 31	34	+21	1,340	+41	The West German engineering company included its vehicle-components subsidiary in its results for the first time.
Takashimaya	Y Feb 28	79	+5	5,240	+5	Unconcerned about a stronger yen, the Japanese department-store operator increased its profits in line with higher sales.

Y = Year ended. () = Loss. *Converted at average exchange rates. **Based on local currency figures. † = Pre-tax profit. ‡ = Decreased loss.

The Ordinary Shares referred to below have not been registered under the United States Securities Act of 1933 and may not be offered, sold or delivered in the United States of America, its territories or possessions or to United States persons. All these securities having been sold, this announcement appears as a matter of record only.

Newmont Australia Limited

A\$94,500,000

International offering of

45,000,000 Ordinary Shares

at a price of A\$2.10 per Ordinary Share

■ ■ ■ ■

S. G. Warburg Securities

Banque Paribas Capital Markets Limited	Deutsche Bank Capital Markets Limited
Dresdner Bank Aktiengesellschaft	Kidder, Peabody International Limited
Lazard Brothers & Co., Limited	Nomura International Limited
N.M. Rothschild & Sons Limited	Salomon Brothers International Limited
J. Henry Schroder Wagg & Co. Limited	Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited	Julius Baer International Limited
Compagnie de Banque et d'Investissements – CBI	Leu Securities Limited
Lombard Odier International Underwriters S.A.	Pictet International Ltd.
Swiss Volksbank London Branch Licensed Deposit Taker	S. G. Warburg Soditic (Jersey) Limited

105,000,000 Ordinary Shares were offered concurrently in Australia by
Macquarie Underwriting Limited and Potter Partners Underwriting Limited

WORLD BUSINESS

Are Europe's companies becoming more European?

PARIS, MILAN AND BRUSSELS

"The only really European companies are American." Is Europe's recent wave of cross-border ventures giving the lie to that old jibe? Plenty of Europe's top businessmen hope so. Men like Mr Gianni Agnelli of Fiat and Mr Etienne Davignon of Société Générale de Belgique believe that European business needs more (and bigger) international champions to compete against Japanese and American giants, especially in high-tech fields.

Europe's latest marriage fad has several motives. In high-tech industries, the aim is usually to get economies of scale to pay for big R&D costs. In some older industries, Europeans are uniting simply to survive. The drive is financial as well as industrial. The internationalisation of stockmarkets and the dropping of barriers to capital movements in Europe have opened up new opportunities for cross-border takeovers.

The upheaval is biggest in European high-tech. This spring, France's Thomson merged its semiconductor business with Italy's SGS, a subsidiary of a state-owned high-tech holding company. Together, they are twelfth by sales in the world's chip market. Ericsson of Sweden won a battle for a 20% share of France's CGCT. Britain's GEC and Holland's Philips merged their medical electronics divisions.

A lot more co-operation goes on below surface, in joint research projects which not necessarily heard about until patents are issued. The EEC wants to encourage

this. Europe's big telecoms companies are trying, in an uphill way, to create common technical standards for their products.

Europeans are also getting together in:

- **Household durables:** France's state-owned Thomson group is buying Ferguson, Thorn EMI's "brown-goods" division. This means that Thomson and Philips will control more than half of Europe's production of electronic home-entertainment goods. Sweden's Electrolux, already owner of Italy's Zanussi, bought up Thorn EMI's "white-goods" division this year.

- **Office equipment:** Olivetti of Italy has bought out Triumph-Adler, a West German typewriter and office-supply company. It also has a 22% stake in Pelikan, a Swiss stationery company.

- **Airlines:** Belgium's Sabena is discussing co-operation with Scandinavia's SAS. The boss of Italy's state-owned airline, Alitalia, has suggested mergers of European carriers to meet American competition.

- **Metals:** Pechiney, the French state-owned company, has agreed to merge its troubled copper business with Società Metallurgica Italiana. The result will be Europe's biggest copper group.

- **Agribusiness:** here an Italian-French axis is developing. Italy's Ferruzzi has 54% of the voting rights in a French sugar firm, Beghin-Say. A big French food business, BSN, is gobbling up small Italian suppliers.

- **Finance and venture capital:** the boss of Olivetti, Mr Carlo De Benedetti, through

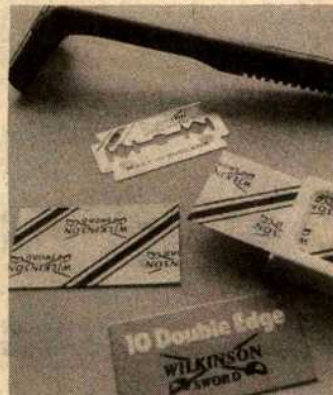
his Paris-based company, Cérus, is on the lookout for investments throughout Europe. West Germany's Deutsche Bank has bought Bank of America's Italian subsidiary, Banca d'America e d'Italia.

- **Press and television:** Britain's Mr Robert Maxwell owns a 10% stake of France's TF1 television channel. Italy's Mr Silvio Berlusconi has a 25% share of France's fifth television channel, La Cinq. Bertelsmann, a big German publishing group, owns France's biggest book club.

Not forgetting America

All this does not mean that European companies are becoming more exclusively European. European businesses are still investing heavily in the United States. A new OECD report on foreign direct investment shows a strong net flow of European investment into America even in 1983 when the dollar was strong. Today the lure of America is still brighter. Thyssen, Renault, Hoechst, ICI, Rhône Poulenc, BASF and Elf Aquitaine have all been involved in recent takeovers there. ICI is selling the specialty-chemicals business of Stauffer, its latest American acquisition, to Holland's Akzo group. On one estimate, the stock of European direct investment in the United States now stands at over \$105 billion.

Mergers across national boundaries can go badly wrong. Within Europe, different national management styles are not easily blended. A similar spurt of European marriages 15-20 years ago led to some famous bust-ups. Unidata, the French-German-Dutch computer group launched in 1973 to combat IBM in Europe, sank pretty quickly. The *mésalliance* of the tyre makers Dunlop and Pirelli ran from 1971 to 1980. The same year, the 11-year union of aircraft makers VFW of West Germany and Fokker of



Swedish owned ...



... Dutch owned ...



... German owned ...



... Italian owned

Peninsular pals

LISBON

Eighteen months of fellow membership of the European Community has done more to bind Spain and Portugal commercially than anything in the past 600 years. An alliance in 1386 between the King of Portugal and England's John of Gaunt (aimed at halting Castilian ambition in Portugal) laid the foundation for centuries of separate and rival development by the two Iberian neighbours.

In the first three months of this year, Portuguese exports to Spain were 80% higher, and Spanish exports to Portugal 51% higher, than in the same period in 1986. That made Spain Portugal's biggest export market and its second-biggest source of imports (after Italy).

Spanish investment in Portugal is also booming. According to the Portuguese government, in the first quarter of this year Spanish private investment was worth \$22m, almost half the \$50m that Spaniards invested in Portugal during the whole of last year when Spain became Portugal's second biggest foreign investor after France (and ahead of Britain).

The biggest chunk of Spanish investment this year has gone on a \$13m Spanish-French bottling and glass-making project at Figueira da Foz—about halfway between Oporto and Lisbon—in which the French glassmaker Saint-Gobain is partnered by four Spanish companies.

The introduction of free trade between the two countries for almost all industrial products from the day of their joining the European Community—and a full seven years before industrial tariffs between Spain and the rest of the EEC are completely phased out—has dramatically changed the rules for businessmen thinking of investing in the peninsula. They can now serve both markets from one base and make better use of each country's advantages—Spain's more developed infrastructure and distribution network; Portugal's low wages (less than half the average level in Spain) and, at least recently, its less strike-prone workforce.

These kinds of consideration have helped persuade Unilever, the Anglo-Dutch multinational, to close its soap-making operations in Spain. Soap production is labour-intensive, so Unilever plans to produce all its soap for the Spanish and Portuguese markets in Portugal. At the same time, the company is moving all its scouring-powder production to Spain, as this is a more capital-intensive business.

Unilever will need all the savings that rationalisation can bring. With the dismantling of tariffs, the Anglo-Dutch giant, which used to have the Portuguese detergent market virtually to itself, is facing competition from Spanish firms and from other multinationals in Spain.

Holland broke up. A study of European mergers done 13 years ago suggested that half were successful, one-fifth were not worth doing, and the rest were failures.

EEC policy has changed. Until the early 1970s, the EEC Commission was trying to win itself a job as Europe's trust-buster. Today it is keener to encourage the creation of big European companies or joint ventures, especially in the high-tech field. Mr Peter Sutherland, the competition commissioner, wants governments to be less nationalistic.

Some governments are sometimes becoming so. The British government refused to stop the takeover of Westland helicopter by the Sikorsky division of America's United Technologies. But old habits of protecting national champions keep recurring. The British put a stop to Ford's takeover talks with Austin Rover; the Italian government favoured Fiat over Ford to rescue the sick Alfa Romeo car company.

Do EEC companies get a better welcome in other members of the community? Not necessarily. West Germany blocked a Thomson-Grundig link-up. Britain's Monopolies and Mergers Commission refused a takeover bid by Ferruzzi for British Sugar—mainly, most continental Europeans think, because Ferruzzi is not British. The old jibe cannot yet be laid to rest.

Greyhound-Trailways

Leave the driving to us

NEW YORK

Greyhound Lines plans to buy the bus lines of Trailways, its biggest remaining competitor, for \$80m. Trailways says that if regulators turn down the deal, which gives Greyhound about three-quarters of America's inter-city bus traffic, it will go bust. Both Trailways and Greyhound say their biggest competitors are aeroplanes and cars, not each other.

Since its heyday in the 1940s, the bus's share of inter-city passenger traffic in America has declined from nearly 9% to around 1% today. Greyhound's passenger tally fell by half in the decade to 1986, a year when it eked out a profit of around \$35m on (mainly ticket) sales of \$640m. Depressed by the steady decline and uncooperative unions, Greyhound Corporation sold its Greyhound Lines bus operations in March this year for \$350m to a consortium of investors led by Mr Fred Currey, a Dallas businessman.

Trailways has fared even worse. It has lost money for years. Closing down opera-

tions in northern states did not stop the rot. Efforts to raise money through share offerings and an attempt to sell the company to an employee stock-ownership plan have failed. After a \$14m operating loss in 1986, Trailways' bankers will not lend it any more money. It may well have to switch off its engines if the Interstate Commerce Commission (ICC) does not let the Greyhound deal go through.

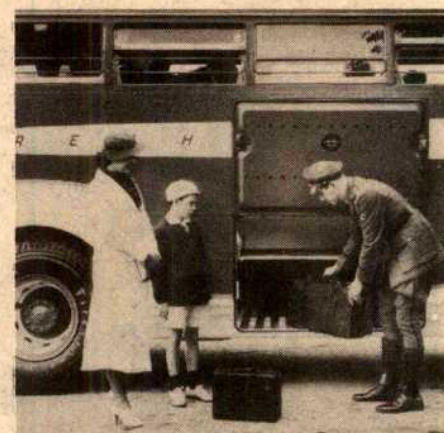
Can Greyhound improve Trailways' fortunes? Mr Currey should at least know what he is buying; he ran Trailways from 1974 to 1979. His efforts to revive Greyhound Lines are beginning to pay off. Thanks to a campaign of fare-cutting and service improvements, he says that Greyhound's sales rose in the 12 months to May 1987—the first such rise in five years. Mr Currey has more ambitious plans for future growth, including:

- **Rural routes:** hard though it is for buses to compete for passengers between big cities, they are still strong in small towns. Greyhound hopes to make the most of that advantage by using vans—many of them driven by part-timers—to service towns too small to fill a 40-passenger bus.

- **Freight:** while Greyhound does not reckon it can compete with, say, Federal Express for high-volume routes, it thinks it could do good business bringing packages from small towns to nearby cities where they could be handed on to other carriers.

- **Airlines:** instead of competing with the airlines, Greyhound hopes to haul people to and from airports. It is talking to airlines about deals that could co-ordinate schedules and ease bookings.

Greyhound reckons the purchase of Trailways would boost its chances of succeeding in all of these schemes. Two-thirds of Trailways' routes are not duplicated by Greyhound. So getting Trailways would extend Greyhound's reach for new business. It is up to the regulators, however, to determine whether that extended reach could become a stranglehold. The ICC is poised to make an interim ruling soon—that can always be reversed.



To the airport, please

The rag trade

On the road from Mandalay

Burma is the latest victim of a quota system which is tying up the world's clothes makers. Burmese garment exports have run into the quotas that protect the American rag trade. It is not that Burmese exports are much of a threat to America's textile barons; just that protectionism has driven the garment industry into parts of the world that other businesses do not reach, and quotas chase the industry as it spreads.

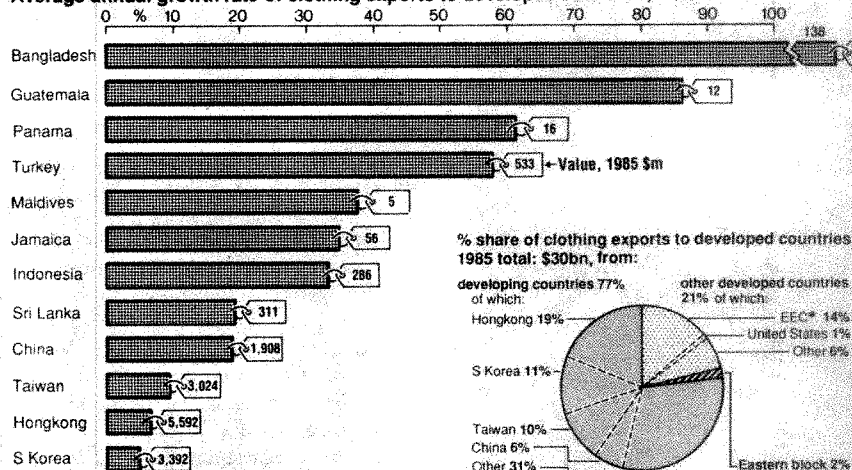
Cheap Asian exports of garments triggered increased American protectionism in the 1970s, and European protectionism soon after. Rich countries now protect themselves against cheap clothing from poor countries, but trade freely between themselves (apart from a few restrictions on Japanese exports to America). GATT now monitors—and, to some extent, controls—the barriers to garment trade within the Multi-Fibre Arrangement (MFA).

All but the least significant third-world exporters to rich countries face quotas on the bulk of their production. Quotas are bilaterally negotiated, and the developing country is told that it can send so many shirts, trousers or anoraks to each country (or, in Europe's case, to the EEC). If it starts to diversify successfully into underpants, alarm bells ring, and underpants-quota negotiations start.

The quotas have slashed the export growth rates of the target countries—Hongkong, Taiwan and South Korea. But protectionism has not cut total trade as was intended. Imports accounted for 2½% of the value of American garment sales in the early 1960s, 10% in the mid-1970s, and

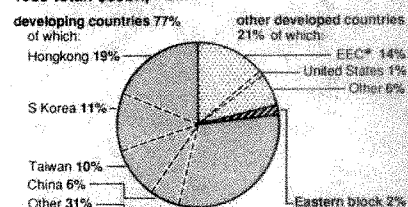
Riches from stitches

Average annual growth rate of clothing exports to developed countries, 1981-85



Source: GATT

% share of clothing exports to developed countries, 1985 total: \$30bn, from:



*Excluding intra-EEC trade

25% in 1986. America's total garment imports were 84% larger in dollar terms in 1985 than in 1982—a big rise when measured against the MFA benchmark of a 6% annual increase. The EEC's imports also went up, though more moderately.

Imports from other rich countries, which are unaffected by quotas, were partly responsible for this increase in trade. The EEC's garment exports, for example, rose from \$4.3 billion in 1981 to \$5.4 billion in 1985, and its share of rich countries' imports rose from 12.1% to 13.8%.

But the poorest developing countries have shown the biggest export growth rates. Businessmen from Hongkong and South Korea soon spotted that they could shift production in response to quotas. The garment industry uses little capital and is very mobile. All you need is a shed, some sewing machines, and lots of cheap nimble fingers. In 1981-85, four developing countries saw their clothing exports grow at an average of

more than 50% a year; ten had growth rates of more than 25% a year.

Some poor countries' governments are helping to sell the attractions of their cheap labour and preferential access to markets by offering special deals for companies which plan to export. Bangladesh, for instance, allows duty-free processing for companies which export 100% of their production, and gives them easy access to foreign exchange for their imports. These enticements help to explain the astonishing 138% average annual growth rate of Bangladesh's garment exports in 1981-85.

Little countries are vulnerable to quotas as they grow, but there is still a lot of scope for expansion. Smaller exporters get looser terms than bigger ones: under last year's MFA, Hongkong is allowed a 0.6% annual increase in its shirt exports to the EEC, while Sri Lanka is allowed 7%. China has been allowed extraordinary expansion for an exporter of its size, mostly because rich

Two countries, one system?

HONGKONG

For years, Hongkong's "quota brokers" have traded export authorisations for the American textile market at big premiums. Because America's foolish system of protectionism has made these quota certificates so valuable, it is tempting to forge them. But now Hongkong is having to worry more about forgeries for exports from China than from its own enterprising manufacturers.

American customs officials are investigating at least half a dozen suspected cases of false quota certificates to export Chinese textiles to America. They think that the certificates are being forged in Hongkong. The "country of origin" documents carry a fraudulent endorsement from the Chinese government that the shipment has been

calculated as part of China's total export quota negotiated with the United States.

Although old hat to Hongkong, the quota system is relatively new to mainland China. Even without the forgeries, the authorities in Peking are finding it difficult to maintain discipline over far-flung provincial textile factories. These small-town Chinese manufacturers, fearing a further tightening in their American market, are speeding through their 1987 quotas. Many are talking of soon dipping into their anticipated 1988 share.

Both China and Hongkong have reason to worry that textile-trade relations with America, already curdled, could sour further if the cheating does not stop. On June 22nd, American officials in Peking grum-

bled that China's share of the United States market was growing too fast. With China now America's biggest supplier of cloth and fourth biggest supplier of clothes, the Reagan administration no longer sees any justification for China's privileged quota status. Hongkong, like Taiwan and South Korea, is limited to growth of only 1-3% a year in its textile exports to America.

The authorities in Hongkong want the colony's textile problems kept distinct from China's. But with Hongkong's industries moving across the border to tap Canton province's spare manpower, the argument for this is weakening. According to the Hang Seng Bank, China is already home to about 2,000 manufacturing operations wholly or partly owned by Hongkong companies, and Canton has registered about 60,000 manufacturing deals with Hongkong entrepreneurs.



Sewing for Uncle Sam

countries are keen not to invite restrictions on their exports of capital goods to such a large market. Bangladesh, partly on compassionate grounds, has had its EEC quotas removed, and its American quotas have been increased. And there are plenty of places like Djibouti and Vanuatu waiting in the wings.

Canadian tax

Keeping up with the neighbours

TORONTO

Canadian finance ministers have a poor track record in their attempts to overhaul the country's tax laws. Vociferous interest groups and fears of losing the next election have caused two governments in the past 16 years to abandon ambitious plans to redistribute the tax burden.

The present finance minister, Mr Michael Wilson, may succeed, at least partly, where his predecessors faltered. The voluminous tax-reform package which he presented to parliament on June 18th was initially designed to keep Canadian corporate taxes in line with those of the United States, and so to discourage Canadian companies from juggling taxable income across the border.

The conservative government, badly in need of a boost, has since turned it into a crafted political exercise which will give voters what they want now, and what they do not want later. Politically powerful farmers and energy producers will benefit early on. Taxpayers likely to be hit hard and early—insurance companies and property developers, for example—do not have many votes or sympathisers.

Mr Wilson plans to cut the top federal

tax rate on individuals from 34% to 28%, starting next year. (Canadians also pay hefty provincial taxes, bringing the total tax bite at present to between 53% in Alberta and 58% in Newfoundland). Under Mr Wilson's proposals, four in every five households can look forward to a lighter tax burden, plus a big refund in early 1989, which happens to be about the time that the government is expected to call the next general election.

Some of the money going into individuals' pockets will come from business. A lower corporate rate (down from 36% to 28%) will be more than offset by a broader tax base with less generous capital allowances and investment tax credits.

Mr Wilson's biggest revenue-spinner will be a broad-based consumption tax to replace the inefficient sales tax levied on manufacturers. The government hopes to persuade the ten provinces to join forces in a single national sales tax, which should incorporate the retail taxes currently levied at the provincial level. Two alternatives are a European-style value-added tax and a business-transfer tax.

This consumption tax looks like a political minefield. Some worry that it may become a cash cow for the government, pushed up a percentage point or two every time a finance minister is looking for ways to cut the budget deficit. Others want to limit the tax's scope by excluding food and other essentials.

The white paper with most of the reforms will probably be approved by parliament in the autumn. The consumption tax, in what-

ever form, will come later. Mr Wilson has put off unpopular decisions on the issue by throwing it open to public debate, so the tax is unlikely to become reality before the next election. Although the opposition is sure to whip up antagonism to it in the run-up to the election, the delay may improve Mr Wilson's chances of staying in office to implement it.

British Aerospace

Making money on the quiet

Pacific Southwest Airlines of California has a large smile painted on the nose of its fleet of British Aerospace's BAe 146 airliners. All future 146s should also sport a grin. On June 23rd, TNT, an Australian-based transport and overnight package-delivery group, said it wanted up to 72 of the dinky British jet airliners, worth about \$1½ billion.

The 146 first flew in 1981, but was slow to soar. The aircraft was conceived as easy-to-maintain jet able to carry about 100 passengers. It was aimed at regional routes in third-world countries, where airlines are trading up from propeller-driven aircraft to faster, more economical jet transport. But it did not work like that. Of the 91 146s sold so far, including ten to China and two for the Queen's Flight in Britain, 73 have gone to high-tech America. The reason: the aircraft is quiet.

The 146 earned the nickname "the whispering jet" because the large fans at the front of its four jet engines make less noise during take-off and landing than other jet-powered aircraft. It allows Pacific Southwest to operate 146s into environmentally conscious American airports, like John Wayne Airport in Orange County. On its first test flight over this airport, the aircraft was asked to fly past again because the airport's noise sensors failed to pick anything up. This resulted in more orders from America, but British Aerospace is still short of the sales needed to recover the 146's £300m (\$490m) development costs.

To try to capitalise on the aircraft's quietness, British Aerospace launched a cargo version called the 146-QT—the initials standing for "Quiet Trader". The hope was that these aircraft could operate freight services from airports at night without upsetting sleeping neighbours.

TNT, which employs about 50,000 people worldwide, has struck an unusual deal with British Aerospace. It has effectively bought first pick of the next five years' production of 146-QTs—up to 72 aircraft. TNT and Mr Rupert Murdoch's News International jointly own Ansett Transport Industries, which operates airlines in the southern hemisphere. Ansett will sell or lease those

Step by step

American and Canadian taxes	
US (in effect 1/1/87)	Canada (proposed 18/6/87)
Income tax	
1 Top rate cut from 50% to 38.5% for 1987. Later reduced to 28%. Lowest rate raised from 11% to 15% after 1987.	Top rate cut from 34% to 28%
2 Capital gains taxed at top rate of 28%. Previously, 80% of long-term gains excluded from taxation.	All investment income will be taxed. Previously, first C\$1,000 was tax-free.
3 Several personal deductions, including medical expenses, state and local taxes and Individual Retirement Accounts, reduced or eliminated totally.	Wide range of tax exemptions and deductions to be replaced by tax credits.
Corporation tax	
1 Top rate cut from 46% to 40% for 1987. After that, rates graded up to a top rate of 34%	Rate to be cut from 36% to 28%
2 Investment tax credits repealed. Changes in depreciation schedules including slower property write-offs.	Capital allowances and investment tax credits to be reduced.

How to fix unemployment rates

Spain has the highest unemployment rate in Western Europe, Switzerland and Iceland the lowest. Any bolder international comparison than that is risky because of the statistical fog surrounding each country's different definition of the jobless

The OECD reckons that this year another 1m workers will join the 31m already unemployed in OECD member countries—enough to form a human chain around the world. Most of them will be Europeans. The jobless rate has doubled in Europe since 1978, to 11.0%. America's unemployment rate (6.3% in April) is no higher than in 1978, and the OECD expects a further small decline this year and next. It predicts that Japan's unemployment rate will remain steady at around its postwar high of 3%.

Slower growth is expected to increase unemployment rates over the next 18 months in West Germany, France, Italy and Belgium (see table). Unemployment is forecast to fall in Britain, Holland and Spain—small comfort, since these countries have three of the highest jobless rates in the OECD.

Comparing trends over time is one thing, comparing relative levels of unemployment in different countries quite another. To a person on the dole it may seem painfully obvious what unemployment is; for a statistician, defining and measuring it is less straightforward. As a result, countries measure their unemployment rates in different ways and international comparisons may be misleading.

There are two basic sources for counting the unemployed:

- An unemployment register which records either the number claiming benefits or those registering for some administrative reason. All the main European countries apart from Sweden use this method for their monthly count. The snag is that it excludes unemployed people who have not bothered to register because they are not entitled to benefits—for example, married women—while it includes those claiming benefits who would not accept a job if it were offered.

The relative size of these groups will depend upon the ease of registering, the strictness of the "availability for work" test, and the level of and entitlement to benefits. The coverage of the register therefore varies from country to country and (as governments tinker with the rules) over time. For example, Britain's Restart scheme, where everybody unemployed for more than a year is called for an interview at a Job Centre, has scared away many who were previously claiming benefit but were not really available for work.

- Monthly surveys of a sample of households, as carried out in America, Japan, Canada and Sweden, provide more comprehensive unemployment statistics unaffected by the problems of a register. A study by the OECD a few years ago found that 80-85% of those recorded as unemployed in annual labour-force surveys were on the unemployment register in West Germany, France and Britain, while in Italy only 63% were registered.

Juggle the figures

National jobless rates also differ because countries vary not only in what they include in the numerator but also in the denominator. Some countries, such as Japan and Britain, use the total labour force—ie, all employed plus unemployed; America and Canada use the civilian labour force, excluding the armed forces; others, like West Germany, exclude the self-employed. The choice of denominator can make a difference of up to two percentage points to some countries' jobless rates.

The OECD calculates standardised unemployment rates for 16 countries. It uses data from annual labour-force surveys to adjust registered unemployment in line with an international standard: namely, those of working age who are out of work, available for work and have actively

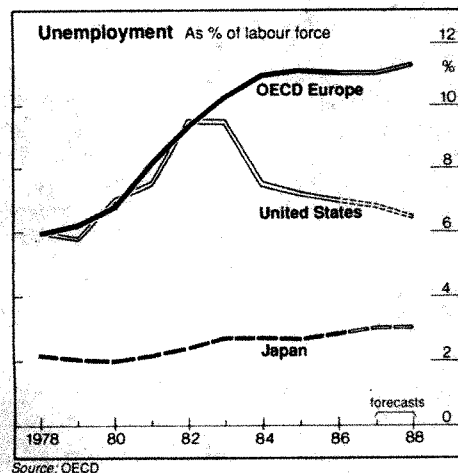
sought a job during the past four weeks. This number is then expressed as a percentage of the total labour force.

For some countries, such as America, Japan and Canada, virtually no adjustment is needed to official national rates. Britain's national rate is now also almost identical to its standardised rate—which may provide some ex-post rationale for the 18 separate changes to the figures since 1979. In most European countries, the OECD's standardised unemployment rate is lower than the national rate because the number of people on the register who are not really seeking work is greater than the number of jobless who are not registered.

According to the West German government, 9.0% of the West German labour force was unemployed last year. Feed the numbers into the OECD's computer and the rate falls to 6.9%—no higher than America's. Italy's rate is cut in the same exercise from 13.8% to 10.7%; Holland's from 14.7% to 9.9%. (To add to the confusion, some countries publish several unemployment rates. The ones used in the right-hand chart are consistent with the series published in the back pages of *The Economist* every week.)

Even the standardised rates are not fool-proof. Two countries can have identical standardised rates, yet have quite different underlying conditions in their labour markets. For example, Japan ignores the vast amount of disguised unemployment—which in big companies results from their system of lifetime employment. They redeploy workers, extend holidays, cut overtime or give early retirement rather than actually sack people. The true level of Japanese unemployment—in terms of those without proper work—is estimated to be at least twice the official rate of 3%.

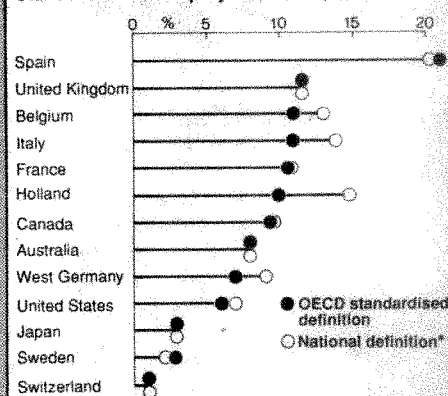
Perhaps governments could pay the jobless to count one another. This would produce more accurate figures, shorten the dole queue, and be no dafter than many of the statistical tricks which governments already use to put a favourable gloss on the jobless data.



OECD forecasts

Unemployment rates, %	1986	1987	1988
Australia	8.0	8	8½
Belgium	11.4	11½	12
Canada	9.6	9½	9
France	10.5	11½	12
West Germany	8.0	8	8½
Holland	13.3	12½	12½
Italy	10.9	11½	11½
Japan	2.8	3	3
Spain	21.5	21	20½
Sweden	2.2	2½	2½
Switzerland	0.8	1	1
United Kingdom	11.8	11½	10½
United States	7.0	6½	6½

Standardised unemployment rates, 1986



*As published weekly in *The Economist's* economic and financial indicators

WORLD BUSINESS

146-QTs that TNT does not want for expanding its overnight delivery operations. That is where any of TNT's rivals who seek to increase their night flights will have to get their whispering jets.

Corporate identity

Face value



British industry is spending more and more on changing its image. Among those stepping out in new livery this month are Courtaulds, the textiles-to-chemicals group which wants its new C-mark to symbolise its turnaround under the chairmanship of Sir Christopher Hogg; the express parcels division of National Freight Consortium which has taken a new name (Lynx) from the ever popular cat family; and GMB, a zippier version of the General, Municipal, Boilermakers and Allied Trades Union, one of the country's oldest and hitherto most tongue-twisting unions.

All are applying techniques developed in America and now used increasingly in Europe. Landor Associates, the biggest company in America specialising in corporate-identity design, estimates that American companies spend about \$6 billion a year on revamping the way their customers, shareholders and employees see them. In Britain, the market is worth a lot less but is growing faster (by around 45% a year). For a new corporate identity, American companies pay an average of \$500,000. For this, they get a face-lift that can take two or more years.

Mr John Diefenbach, chief executive of Landor, says it often takes six months for the boards of big companies to decide on a new identity, and another 18 months or so to implement it. To do a job properly,

everything from staff uniforms to annual reports must be changed.

The results can be worth waiting for. British Airways is still getting a favourable reaction to (and extending the scope of) its identity change in the run-up to privatisation three years ago. America's United Airlines was not so lucky. Mr Richard Ferris, its former chairman, spent several months and \$7m changing the company's name to Allegis—only to be deposed earlier this month in a boardroom coup. His successor, Mr Frank Olson, has changed the name back to United Airlines.

Flops like this cause companies to question the value of an identity change. Like most forms of below-the-line promotion, the results of a new corporate identity are hard to gauge. Many redesigns coincide with a watershed in a company's development—a merger, acquisition, or significant diversification—which has anyway changed the way it is viewed (and, therefore, valued) by investors. A new identity is often planned as part of a strategy to revive a company's fortunes, making its effects (if any) hard to isolate.

An awful new name (like Allegis) can by itself undermine an otherwise good design. The revamped logo on the chain of British petrol stations owned by Kuwaiti Petroleum International may be pleasing to the eye, but will the punning Q8 endure in the public imagination? Even if a company's new name is not a handicap, it can still take a long time to catch on. Just under 60% of people polled last year knew that Esmark was the name of an American conglomerate. That was almost as many as remembered Swift—the company's name until 1975. Still, some companies like to be obscure. Unilever, for instance, does not want shoppers to know just how pervasive its products are on supermarket shelves.

Biotechnology patents

Exclusive rights to nature?

Genentech, the acknowledged leader in biotechnology, is leading the industry through a legal quagmire. A British court is soon to decide whether Genentech can retain exclusive marketing rights in Britain for its leading research product, a heart drug known as TPA. It is a test case of whether biotechnology patents are worth the paper they are written on.

Some 6,000 such patents have been filed. Biotechnology companies depend on them to recoup the costs of developing a new drug. Human insulin, the first genetically engineered drug (approved for sale in 1982), gobbled up about \$100m and 1,000 man-years on its way to market.

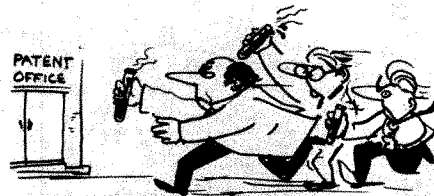
Biotechnology firms are particularly sensitive about protecting their patents because, unlike established pharmaceutical firms, many are racing to make essentially the same products. About 20 of them, for instance, are developing TPA. All want a share of a market that analysts expect to grow to \$800m a year within ten years in America alone—despite a serious setback earlier this month when a committee at America's Food and Drug Administration refused to approve Genentech's drug.

Several legal battles are already raging over the ownership of biotechnology products. One of the fiercest centres on the human growth hormone (HGH), used to combat dwarfism; it became, in 1985, Genentech's first genetically engineered drug to win approval in America. The authorities awarded Genentech exclusivity equivalent to that granted by a patent.

In November 1986, however, Eli Lilly, a big American drugs firm, received federal approval for its "new and improved" version of HGH which, unlike Genentech's original product, is an exact copy of the HGH found in man. Four other companies including Genentech, have now applied to have their "natural sequence" HGH approved. The trouble is that regulators appear to have granted Eli Lilly a temporary market monopoly. Genentech has sued the Food and Drug Administration to determine which company, if any, has exclusive rights to the product.

A further problem emerges from the broad patents pioneering firms applied for in the early days of biotechnology research to cover themselves against all possible technological breakthroughs. These shut out competitors, which is why firms are prepared to take on expensive legal fights to defend (or overturn) them. In December 1986, the European patent office revoked a patent issued to Biogen in 1984. Rival companies had objected that it was so broad that it covered all products that might be produced by a genetically engineered bacterium called *E. Coli*.

In theory, a patent is only awarded if... discovery of the product was not obvious. A main issue for the courts to decide is whether companies can patent products that are replicas of substances found in nature. At the end of last year, a federal appeal court in America upheld a patent on a diagnostic test used to detect pregnancy and cancers. Monoclonal Antibodies, a biotechnology firm, disputed the patent



The garden slugs in a microelectronics lab at AT&T Bell Laboratories are very fussy eaters. They won't go near their favorite foods if they smell a whiff of garlic. Garlic? Garden slugs? What could that possibly have to do with making computers smarter? More than you'd ever imagine...



The common garden slug loves the enticing odors of carrot, tomato and mushroom. But it hates garlic. When scientists at AT&T Bell Laboratories "spike" these favorite foods with garlic, what happens? The slug learns. It alters its memory of the foods it once loved and avoids or rejects them.

Insights gained from studying simple central nervous systems like the slug's point to a dramatically new approach to computing. An approach that promises to make computers faster, smarter and easier for people to use.

Why study slugs? Though the slug is no Einstein, its brain's limited ability to learn—to associate new information with existing memories—makes today's most powerful computers seem primitive.

And the slug, with its neural networks comprised of a mere 500,000 nerve cells or neurons, is much less complicated to work with than people or other animals.

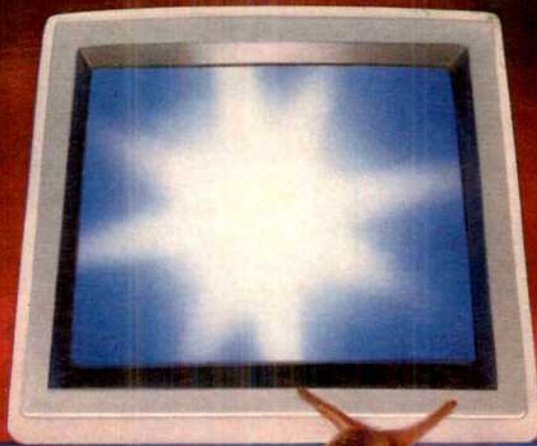
Microchips that mimic the brain

On functioning computer chips, microelectronics researchers have built prototype electronic neural networks.

Like biological networks of brain nerve cells, these electronic circuits use associative memory to relate incoming information to memories already stored. So they can cope with information filled with errors or ambiguity. And they can deal with "messy" information, collecting scattered facts to recognize and remember from incomplete details, much as the brain does.

One test chip, containing 54

Slug as savant:
"Nature has shown us there are powerful computer designs very different from conventional machines."

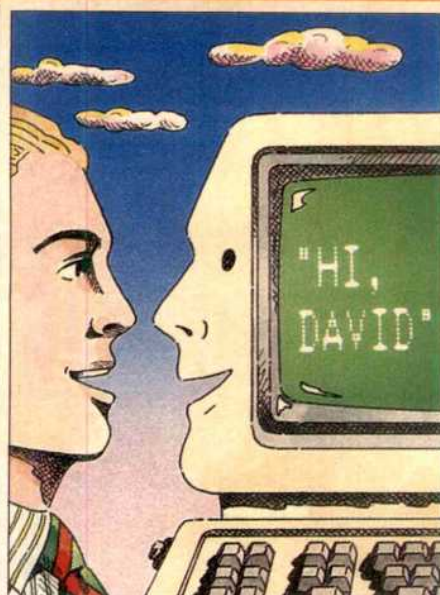


"neurons" in such a "neural network," can recall memories from imperfect data within a few millionths of a second—selecting "James Lynn" from among several stored names as the correct response to the input "Jim."

Getting up to speed

By studying simple central nervous systems like the slug's, scientists at Bell Labs are also gaining valuable insights into another brain function, parallel processing. It offers an answer to a physical limitation of today's computers—speed.

Step-by-step computing can only process information one piece at a



ments as well as good calculations. Computers that can perceive and learn in an imperfect world, much as people do.

In the future, working with computers will be more like working with people. The machines will understand and respond to human speech—even recognize the

In the future, people and their computers will have a much friendlier working relationship.

for Bell Labs. Some 21,000 patents, an average of more than one a day. And a legacy of achievement, from the transistor and the laser to lightwave communications and the digital computer.

This longer view ensures that the technology built into all AT&T products can evolve and adapt to the changing needs of the real world. Making information easier to obtain and use for everyone.

© 1987 AT&T



Today's computers can only process neatly-stored information. A little human ability to deal with messiness might actually make them a whole lot smarter.

time. Parallel processing, the ability to perform several functions simultaneously, speeds things up. And the more things done together, the faster the whole job gets done.

"Thinking" computers

Where is this research into associative memory and parallel processing leading? To "thinking" computers that make good judg-

person addressing them.

Taking the longer view

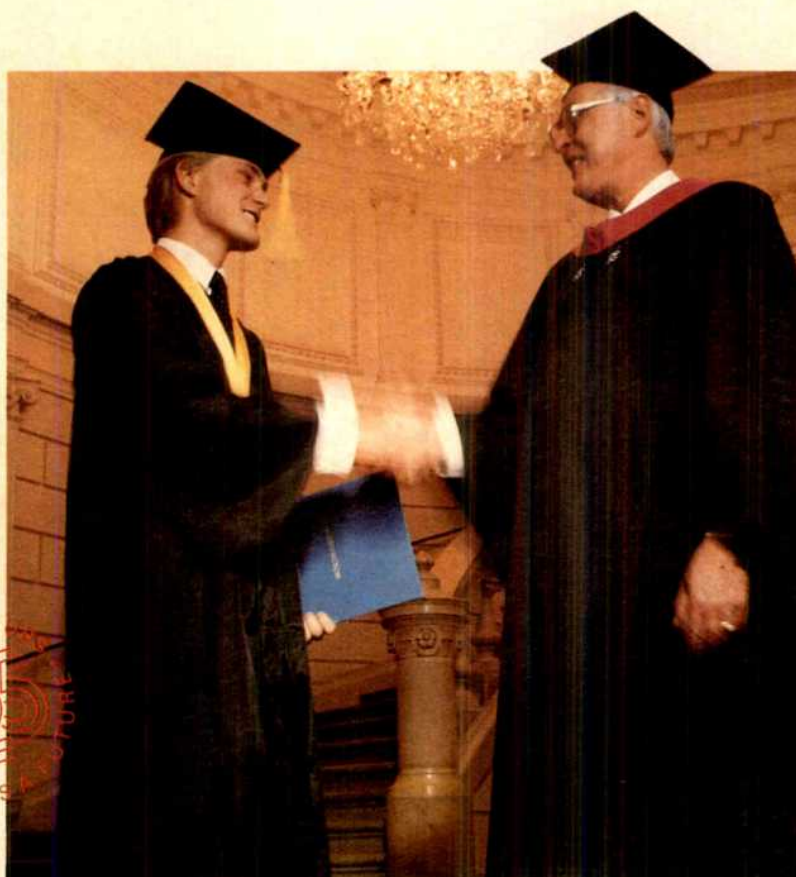
Research scientists at AT&T Bell Laboratories are expected to take the longer view. To look beyond the impact of technology on the next quarter or the next year, into the next century.

It is this perspective that has produced seven Nobel Prize winners



Distinction

comes from outstanding achievements.



If all you need is a bank – pick one. But if you are looking for a worldwide financial partner, be sure to select one with a successful global presence and a record of outstanding achievements for its clients.

UBS – committed to excellence.

Worldwide network of UBS

Europe: Frankfurt, London, Luxembourg, Madrid, Monte Carlo, Moscow. **North America:** New York, Chicago, Houston, Los Angeles, San Francisco, Cayman Islands, Calgary, Montreal, Toronto. **Latin America:** México, Panamá, Bogotá, Caracas, São Paulo, Rio de Janeiro, Buenos Aires. **Middle East and India:** Abu Dhabi, Bahrain, Beirut, Tehran, Bombay. **Far East:** Hong Kong, Osaka, Tokyo, Singapore. **Australia:** Sydney. **Africa:** Johannesburg. **Head Office:** Union Bank of Switzerland, Bahnhofstrasse 45, CH-8021 Zurich.



(awarded to Hybritech, a subsidiary of Eli Lilly) on the grounds that Hybritech's test relied on the application of a known biotechnology technique to a standard diagnostic test.

The court found in favour of Hybritech on the grounds that the commercial success of its kits demonstrated that the invention was not that obvious. High legal costs deterred Monoclonal Antibodies from pursuing its case to the Supreme Court. Hybritech is now fighting a similar battle with Abbott Laboratories, a big drugs firm. This time both sides have enough money to see the case to its limit.

British food retailers

Checking out

Britain's food retailers are getting too big for their roots. In 1986, five of them—J. Sainsbury, Tesco, Dee, Argyll and Asda—accounted for 52% of Britain's grocery sales, and the ten biggest 70%. Analysts reckon that these multiple-store chains (those with 100 outlets or more) will find it hard to push their share of the market much above 80%.

That is one reason that J. Sainsbury, the biggest, announced on June 19th that it is increasing to 49.4% its stake in Shaw's Supermarkets, an American chain that has a 7% share of grocery sales in Massachusetts, Maine and New Hampshire. Sainsbury hopes eventually to boost its stake to at least 74% through a tender offer.

Sainsbury is not the only British food retailer with overseas ambitions. Dee (which includes the Gateway, Carrefour and Fine Fare chains) has diversified into Spain's grocery market and has started to sell sporting goods in America. Argyll, which last year paid £681m (\$1.1 billion) for the British offshoot of America's Safeway supermarket chain, is also considering expanding abroad.

With only 17% of grocery sales left in the hands of small independent retailers, the big chains worry about the expense of increasing their market share. Most are relying on "superstores", big purpose-built caverns on the edge of town, to give them a boost. In 1986, the average size of a British supermarket was 11,300 sq ft. Superstores are at least 25,000 sq ft, and most new stores due to open this year exceed 40,000 sq ft, each one costing some £20m.

The investment in new superstores is proving a drain on retailers' balance sheets. In theory, superstores have big advantages, for both shoppers and shopowners. The use of bar-code scanners, computerised stock control and high volumes allows their owners to achieve profit margins of around 7% before interest costs—nearly twice that of many high-street supermarkets.

Spotting the lemons

Falling computer costs and increasingly sophisticated information systems (such as electronic price scanning) are enabling retailers to measure accurately the cost of storing and handling individual products. After analysing these costs with the help of a sophisticated form of cost accounting, called Direct Product Profitability (DPP), many retailers are learning that some apparently profitable goods are actually losing them money.

DPP was invented by McKinsey, an American management consultancy, in the 1960s, but the technology to implement it took 20 years to catch up. America's Food Marketing Institute (FMI) produced a standard software package for measuring the DPP for dry groceries in August 1985. It has sold 1,200 packages so far, including about 50 to foreign firms, and is planning models for other product groups. Other American trade associations have devised models for discount department stores and drug-store chains. Several countries are adapting the FMI model for local use: Britain's Institute of Grocery Distribution has launched a DPP model and training course for food manufacturers and retailers. France, West Germany and Canada are following suit.

Retailers have customarily used gross profit margin as the measure of a product's profitability, and have averaged out handling and other costs across the product range. The DPP system allocates labour and equipment costs to every stage of a product's movement, plus the storage costs at each stage. It takes account of the dimensions of each product, how long it takes to lift them, and how full the lorries carrying them usually are.

Not only the retailers benefit from this information. Manufacturers have used DPP's findings to improve their product design or packaging. Procter & Gamble discovered that the contents of all the bottles of its Crisco Oil filled only 26% of the case containing the bottles. So it redesigned the bottles with a larger waist to fit them into smaller cases. Procter & Gamble also used plastic instead of glass to save space. It claimed that these changes made each case 32 cents cheaper.

The costs of introducing DPP depend on

a store's existing information system. The FMI software package sells for a mere \$300, but users then have to fill in detailed information about their own products. So DPP tends to follow the use of scanning and bar codes, which provide information about goods' turnover, though not about their size and packaging. The grocery trade has led the way in using DPP because its huge range of low-margin goods makes cost control so vital. But the methodology can be applied to any sort of retailing.

A survey conducted by the FMI last winter showed the impact that DPP made in America within 18 months of the launch of the FMI's package. Of America's 97 biggest food retailers, 40% had at least investigated using DPP and 5% had made a change in business practice as a result (for example, changing a product's position on a shelf). The main benefits were in inventory costs, product mix and shelf-space planning.

At best, DPP is only a management tool. Retailers always have to consider how customers may react to their money-saving changes. Stocking only profitable goods may not increase a store's sales. On the other hand, failing to control loss-making goods is sure to increase its losses.



But the mixture of food, do-it-yourself, gardening, sport and leisure products has not proved the success that most superstore owners hoped for. Sales of non-food items are now only 36% of the total, and falling. Few British shoppers, it seems, buy lawn-mowers with their groceries. Realising their mistake, superstores are beginning to concentrate on higher-margin foods like fresh fish (where gross margins are as high as 30%) and delicatessen foods. In place of lawn-mowers, they are pondering selling medicines and more clothes.

This is good news for small retailers. A

new report by the Manchester Business School says that in the past two years the speed of their decline has slowed. Most have extended their opening hours, juggled their range of goods to suit customer needs and improved their marketing skills. By 1997, says the report, they should be more than holding their own. That is long enough for Dairy Farm, a food group from Hongkong where 1997 will spell the end of British rule; it has thought it worthwhile to bid £147m for a stake of slightly under 22% in Kwik Save, Britain's sixth biggest supermarket chain by market capitalisation.

COMPANY BRIEF

Royal Dutch/Shell's split personality

With a nod of thanks to the feeble dollar, Royal Dutch/Shell last year overtook America's Exxon to become the world's biggest oil company. Of all the "internationals" in the oil business, Royal Dutch/Shell can probably lay greatest claim to that title. Yet it remains distinctly national in the countries in which it operates. In Britain, Shell Transport and Trading is thought of as a thoroughly British company. Americans consider Shell Oil to be their own. And in Holland, Koninklijke Nederlandsche Petroleum Maatschappij (Royal Dutch Petroleum) is regarded as firmly Dutch.

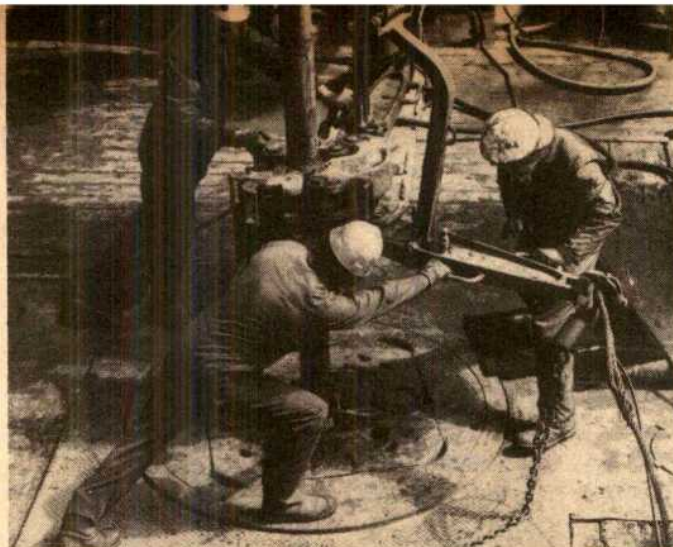
The company is an enigma in other ways. Royal Dutch/Shell operates in more than 100 countries, with 54 refineries scattered around 34 of these. It employs 138,000 people worldwide. Fewer than a third of them work in Britain or Holland, home countries of its two parent companies. In 1986, the group had gross sales of £55.5 billion (\$81.4 billion)—about the same as Denmark's GDP. Yet, compared with most oil majors, Royal Dutch/Shell is a shrinking violet. It is so partly by choice, but mostly because its byzantine structure of parent and operating companies makes it hard for investors to understand.

The company is the product of a merger in 1907 between Holland's Royal Dutch Petroleum and Britain's Shell Transport and Trading. The British end of the business was founded by Marcus Samuel in the 1890s, and in its early years was to

rival John D. Rockefeller's Standard Oil. Royal Dutch Petroleum was smaller, but more feisty. As Samuel's interest switched to his country home and his role as lord mayor of London, Royal Dutch began to edge ahead. When, early in the century, world trade in oil slumped, and Standard Oil began to cut its prices to increase market share, Samuel found himself pushed into a merger with Royal Dutch.

The result, unusually, is a company with two unequal parents. Royal Dutch Petroleum holds 60%, and Shell Transport and Trading 40%, of the equity in two holding companies—Shell Petroleum NV and The Shell Petroleum Company. These, in turn, control sundry service companies, and the group's operating subsidiaries. Oddly, the parent companies lie outside the main group, and have no operating subsidiaries of their own. Royal Dutch/Shell publishes two sets of annual accounts—one for each parent—in two currencies: sterling and guilders, a convention followed in this brief.

No amount of double accounting could obscure the fact that, for most oil companies, 1986 was a bad year. From an average of \$28 a barrel in 1985, oil prices fell as low as \$8 last July. Measured in terms of historic cost, Royal Dutch/Shell's net profit fell by 16.2% to £2.5 billion; and the value of its oil stocks by £830m. On a current-cost basis—rather than the usual first-in, first-out method of accounting for inventory—net in-



Two can play at this game

come looked better, rising by 7.6%.

Though crude oil prices crashed last year, prices of refined oil products fell more slowly. That let oil companies make big profits on their downstream (refining and marketing) operations, even though their upstream (exploration and production) businesses were in the doldrums. Royal Dutch/Shell was no exception. Last year, its operating profits from downstream activities rose by 58.9%, to £993m. Thanks to cheaper feedstocks (naphtha, etc), it more than doubled its operating profits from chemicals, to £462m. But upstream operating profits fell by 50.2% to £1.5 billion, wiping out gains elsewhere.

The real profits from downstream activities were made during the first six months of 1986, when margins on refining operations on some products were as high as \$2-3 a barrel. As oil-product prices fell during the second half of the year, however, crude oil prices increased, so squeezing oil companies' margins. In the first three months of 1987, Royal Dutch/Shell earned at best \$1 a barrel from its downstream activities; on some opera-

tions—eg, hydroskimming (one kind of crude-oil refining)—it says it made a loss. And things are unlikely to improve much while the oil market remains soft.

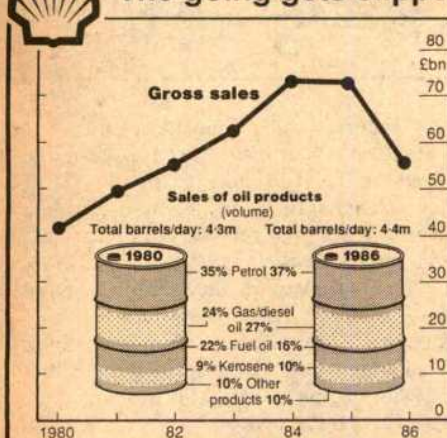
Downstream buffer

Royal Dutch/Shell is better protected than most big oil companies against a fall in its downstream profits. This is partly because of the group's flexible policy on crude-oil purchasing. Shell International Trading Company (SITCO), its trading arm, handled about 2.1m barrels a day of crude oil in 1986. Around 35% of that came from sources in which the group itself has an interest. Some 55% of SITCO's sales were to group companies. But, unlike some producers, Royal Dutch/Shell does not oblige its operating subsidiaries to buy in-house if they can get a better deal elsewhere.

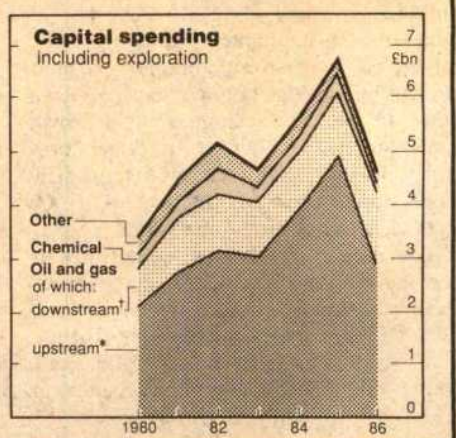
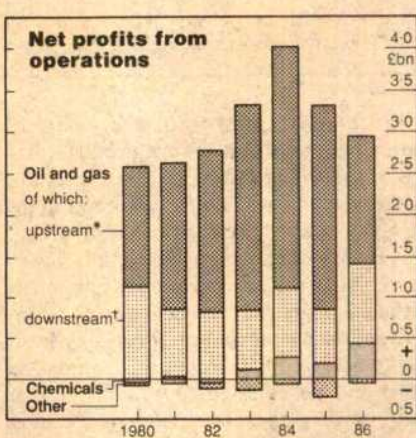
Royal Dutch/Shell has shut down or mothballed fewer refineries than many of its competitors (33% of primary capacity since the end of 1980, compared with an industry average of 37%). But it



The going gets slippery



Source: Company reports



* Exploration and production † Refining and marketing

reckons this capacity could still be used more flexibly. Ten years ago, Royal Dutch/Shell processed 80 different types of crude worldwide. Today, it is processing almost 160 types, and has reduced the cost of doing so: the amount of energy used to power its refineries has fallen by 35% since 1972. Last year's cheap oil more than halved the cost of the energy it used.

Royal Dutch/Shell attributes much of its punch to two simple maxims: decentralisation and long-term planning. Local operating companies are left to run their own businesses. Management groups are divided into geographical areas which are responsible for projects within their patch. The group disdains the division of responsibilities along functional lines, saying that this encourages managers to become entrenched, inefficient and less innovative.

Royal Dutch/Shell plans a long way ahead, even for an oil company. While much of Big Oil was rantically restructuring in 1986 to cope with lower oil prices, Royal Dutch/Shell was benefiting from its earlier slimming. In 1985, it wrote off £350m in restructuring costs. That gave a £50m boost to last year's profits.

It plans largely by ignoring short-term lurches in the oil price. Mr Norman Hawden, manager of the company's manufacturing planning and appraisal department, points out that a large part of Royal Dutch/Shell's reserves were discovered when oil cost \$2 a barrel. The result is that, unlike most of its competitors, Royal Dutch/Shell worries little, when planning new investment, about the prospect of an oil price at \$20 or below. It is trying to shift its downstream operations towards lighter oil products—eg, petrol (see chart).

Since 1980, the consumption of heavy fuel-oil in OECD countries has been halved. The "cut" of a barrel of oil produced by Royal Dutch/Shell is already much lighter than the industry average. That helped shore up the company's profits last year, when lower oil prices encouraged motorists to dust down their gas guzzlers and head for the open road. The company's next step in this direction is the planned completion in 1989 of its \$600m Hycon project. Hycon—under development since 1967—converts the sludge at the bottom of the barrel into lighter, higher-value products.

The company hopes to pull off a similar trick with gas. Many of its cheap gas finds are in hot countries, where demand for gas for heating is low or non-existent. Royal Dutch/Shell's system of middle-distillate synthesis is capable of

A brighter spark

Petrol attracts little brand loyalty because motorists usually opt for the cheapest or nearest source. But with Formula Shell, introduced in Britain last year and now sold in 26 countries, Shell hopes to change all that.

Formula Shell has two additives. The first, a detergent to reduce deposits in carburetors and fuel-inlet systems, is found in most petrols, although Shell claims its product is more advanced than its rivals'. The second, known as a "spark-aider", is more interesting.

Engine performance depends partly on the strength and consistency of combustion. If the kernel of a flame created by the sparking plug does not quickly reach a certain size, the mixture of fuel and air will burn inefficiently and the flame may even die out. When that happens, the engine mis-fires.

Shell's "spark-aider", a potassium compound, gives a kick to the flame. The result is a claimed improvement of 2-3% in fuel consumption. Tests under the direction of Britain's Royal Automobile Club suggest a 25% increase in the consistency of the engine's performance. The only snag seems to be that an engine run on Formula Shell takes slightly longer to warm up.

Shell is undoubtedly taking market share from small independent retailers in Britain—but so are the other big oil companies. How much of Shell's gain is due to Formula Shell and how much to heavy promotional campaigns and the revamping of its duller filling stations is hard to tell. The best results have been achieved in Japan, where Formula Shell was launched in January. Enthusiasm for the brand has more than doubled Shell's share of premium-grade petrol sales there, to 38% in April.

converting 100m cubic feet of methane in one process each day into gas. The group's pilot plant in Amsterdam has spawned the scheme's first commercial application in Malaysia. It is supposed to start earning its keep early in the next decade.

The company is also trying to boost profits by differentiating between its products. This is hardest to do with petrol but the potential rewards are great if it can pull it off. The approach has already spawned Formula Shell, a petrol that, unusually, Royal/Dutch Shell is promoting as an individual brand (see box). Other types of differentiated products may follow.

Shell Chemical, the world's seventh-biggest chemicals group with sales in 1986 of £6.2 billion, is pushing hard to switch from high-volume but low-profit bulk chemicals to specialty chemicals—eg, those used in the manufacture of silicon chips. Last year, these accounted for 15% of Shell Chemical's total sales. It hopes this proportion will rise to 25% by 2005.

The exploration and production of oil was Royal Dutch/Shell's weakest point last year, and it remains a weak link in its long-term plan. As oil prices fell in 1986, the company reduced its investment in upstream activities by 42%, to £2.9 billion. This meant ditching several new projects, and "deferring" others. With the cost of production as high as \$12 a barrel at some of its existing fields in the North Sea, Royal Dutch/Shell began withdrawing from those which would

make money only when oil was at \$15 a barrel or more.

Where possible, mothballed exploration sites are being (expensively) re-engineered to make them profitable at prices well below the current oil price. Often, this means trying to develop new technology to cope with production difficulties. One improvement which could make a big difference is the development of subsea extensions to existing fields—ie, self-contained seabed wellheads pumping oil from small fields to existing platforms, reducing the number of new platforms required. By the early 1990s, Royal Dutch/Shell hopes to bring on stream lots of new fields which would be uneconomic using conventional methods of extraction.

The fall in oil prices last year has given the company a breathing space it had not counted on. When oil cost \$30 a barrel, a few months' cheaper production was valuable. When it is between half and two-thirds that price in a glutted market, timing is less critical.

Royal Dutch/Shell is not alone in making these advances in exploration. Many of the service companies which provide it with oil-exploration equipment and expertise have made technological breakthroughs and, as a result, have reduced their prices. Drilling costs are still falling. If the spot oil price remains at, or exceeds, \$19 a barrel, a number of oil producers, Royal Dutch/Shell included, will be smiling.

That said, the lead time involved in bringing projects on stream agi-

tates the company. This is especially true of gas. Norway's vast Troll field, in which Royal Dutch/Shell has an 8.3% interest and is the main operator, is a case in point. Troll was discovered by Norske Shell in 1979, but will not be producing gas until the mid-1990s. Once it is doing so, however, it should remain productive for the next 60 years.

American woes

Royal Dutch/Shell may have done better last year than most big oil companies, but it was still a bad year. The after-tax profits of Shell Oil, its American offshoot, fell 46% (to \$883m)—though it produced more crude oil than in any year since 1972. This was only partly because it was largely exempt from excise taxes on petrol, which in countries which have high ones (eg, Britain) tend to cushion oil producers from lurches in the oil price.

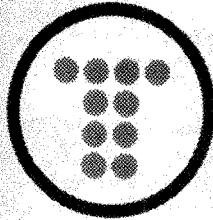
Shell Oil's problems are not over yet. In the three months to the end of March 1987, its sales of refined products were up 23% over the corresponding period last year, but its profits after tax, at \$108m, were 61% lower. Low oil prices have squeezed its margins. Nor can the company recoup some of its lost profits through the increased sales of its agricultural-chemicals business: this was sold last October.

Royal Dutch/Shell is loth to diversify outside the oil business. It aims instead to grow by exploration, by working its existing fields harder and, if possible, by acquisition. It is strong enough to do this. In 1986, it had cash and short-term securities of £6.4 billion, and total debt equal to less than half its shareholders' funds.

Yet Royal Dutch/Shell remains leery of a big acquisition. In 1985, it bought the 30% of Shell Oil it did not already own, for \$5.7 billion; and in the same year spent \$1 billion buying 500m barrels of oil reserves from Occidental Petroleum. It is happiest making small acquisitions which it feels will bolster existing businesses. Last year, it spent around \$500m on eight such acquisitions.

Royal Dutch/Shell is looking cautiously at the 1990s. It is not alone in worrying that, if OPEC were to crack and oil again plunged towards \$10 a barrel, no amount of cost-cutting and technological wizardry would allow its exploration activities to make money. That could leave it dangerously dependent on refining and marketing for its income, and on other low-cost producers for its oil. Like most of Big Oil, it does not relish a world in which Middle East producers, in whatever guise, are king.

All of these securities having been sold, this advertisement appears as a matter of record only.



Compañía Telefónica Nacional de España, S.A.

(National Telephone Company of Spain)

18,000,000 American Depositary Shares

Representing
54,000,000 Shares

Goldman, Sachs & Co.

Merrill Lynch Capital Markets

Salomon Brothers Inc

Alex. Brown & Sons
Incorporated

Donaldson, Lufkin & Jenrette
Securities Corporation

Lazard Frères & Co.

L. F. Rothschild & Co.
Incorporated

S. G. Warburg Securities

Advest, Inc.

Bateman Eichler, Hill Richards
Incorporated

Butcher & Singer Inc.

First Southwest Company

Howard, Weil, Labouisse, Friedrichs
Incorporated

Johnson, Lane, Space, Smith & Co., Inc.

Ladenburg, Thalmann & Co. Inc.

Morgan Grenfell Incorporated

Moseley Securities Corporation

The Ohio Company

Piper, Jaffray & Hopwood
Incorporated

The Robinson-Humphrey Company, Inc.

Sutro & Co.
Incorporated

Underwood, Neuhaus & Co.
Incorporated

Deutsche Bank Capital
Corporation

E. F. Hutton & Company Inc.

Morgan Stanley & Co.
Incorporated

Shearson Lehman Brothers Inc.

Wertheim Schroder & Co.
Incorporated

AIBC Investment Services Corp.

William Blair & Company

Cowen & Co.

Dain Bosworth
Incorporated

Legg Mason Wood Walker
Incorporated

Needham & Company, Inc.

Oppenheimer & Co., Inc.

Stephens Inc.

Thomson McKinnon Securities Inc.

Wheat, First Securities, Inc.

Dillon, Read & Co. Inc.

Kidder, Peabody & Co.
Incorporated

PaineWebber Incorporated

Smith Barney, Harris Upham & Co.
Incorporated

Dean Witter Reynolds Inc.

Arnhold and S. Bleichroeder, Inc.

J. C. Bradford & Co.
Incorporated

A. G. Edwards & Sons, Inc.

Furman Selz Mager Dietz & Birney
Incorporated

Interstate Securities Corporation

Johnston, Lemon & Co.
Incorporated

McDonald & Company
Securities, Inc.

Morgan Keegan & Company, Inc.

Neuberger & Berman

Paribas Corporation

Prescott, Ball & Turben, Inc.

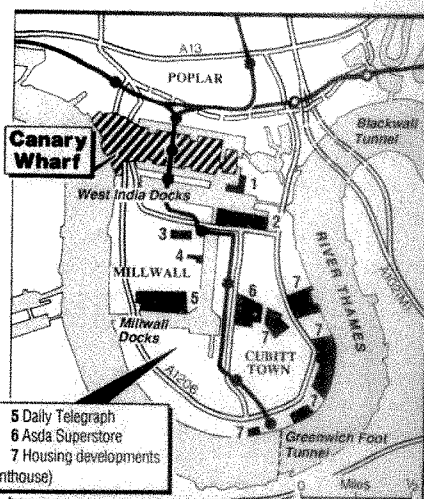
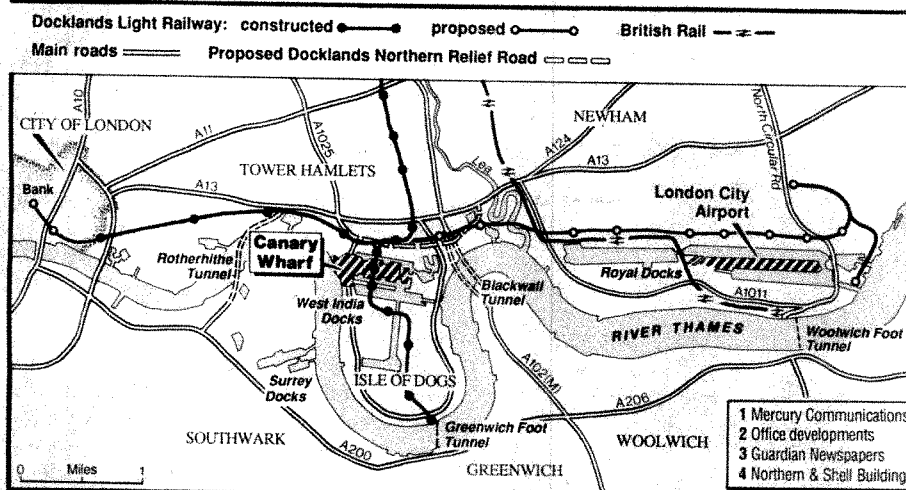
Stifel, Nicolaus & Company
Incorporated

Tucker, Anthony & R. L. Day, Inc.

Wood Gundy Corp.

June, 1987

FINANCE



Killing two birds on Canary Wharf

Canary Wharf on London's Isle of Dogs, the biggest property development in Europe, has suffered more delays than the Channel Tunnel. Now the Canary Wharf Development Company (CWDC), the consortium which plans to build a £3 billion (\$5 billion) alternative City on the derelict dockland, is about to lose two of its founding partners—Credit Suisse First Boston (CSFB) and Morgan Stanley. These two investment banks remain committed to take space at Canary Wharf, but will no longer be involved as developers.

Their departure causes problems for their erstwhile partners—First Boston (a cousin of CSFB) and Mr G. Ware Travelstead, an American property developer who dreamed up the Canary Wharf scheme. These two remaining members of the consortium need to find replacements before the master building agreement can be signed and construction begin.

When the project was sketched out three years ago, the two investment banks looked set to stay the distance. The then chairman of CSFB, Mr Michael von Clemm, said that his bank could make more money from the Canary Wharf development than from Eurobonds. On second thoughts, the tough conditions of the 1,500-page master agreement may seem more risky than dealing in Eurobonds.

The contract between the consortium and the local planning authority (the London Docklands Development Corporation) will transfer title of the land to the Canary Wharf Development Company—but lays

down obligations on both sides. The Docklands Corporation will provide infrastructure—roads, sewerage and the Docklands Light Railway. The consortium will build the lower levels of the project, expected to cost about £400m. On this, banks will slot in their own buildings, having bought or leased land and water sites from the consortium. The whole project is expected to provide 12m sq ft of space by 1997. If the Canary Wharf company fails to complete the project, the Docklands Corporation can take over and finish it. The consortium will still have to bear the cost.

So far, the consortium has sunk about £80m into Canary Wharf, but banks are not prepared to lend until the master agreement is signed. When it is, NatWest Investment Bank will be free to syndicate a credit to finance the first phase. Work on the extension and upgrading of the Docklands Light Railway, which will link the wharf to Bank underground station and the new docklands airport, had been delayed; but on June 22nd London Regional Transport told the railway contractors to start work. The consortium and the government will share the railway's £150m costs. But, until the agreement is signed, the consortium will underwrite the contractors' costs, up to a certain pre-set limit.

The consortium had hoped that several banks would commit themselves to Canary Wharf before the agreement was signed. So far, no financial institution other than CSFB and Morgan Stanley has said it wants office space in Canary Wharf. A few, including

NatWest, are looking at it. The consortium still hopes that, once the agreement is signed and the project's completion therefore guaranteed, banks will flock to Canary Wharf. Chartered surveyors working for CWDC reckon they will have takers for 2.5m sq ft by the end of this year.

Banks are like wildebeest; they move in herds. Moving east out of the City has advantages. Canary Wharf is cheaper. Rents there will be £28 per sq ft, and rates (free until 1992) will cost £11 per sq ft. In contrast, City rents for air-conditioned office space have risen from £34 a sq ft in June 1985 to £55 a sq ft this month, according to Savills Research. City rates average £16 a sq ft.

Canary Wharf can also provide more flexibility than the City. Old City buildings, for example, cannot provide pillarless trading floors. At Canary Wharf, banks and other institutions will be able to custom-build their offices.

Will future demand justify Canary Wharf? In answering the question, Mr Jeremy Priestley, the consortium's new director of marketing, notes that in all central London (including Docklands) 29m sq ft is scheduled to come on stream in 1987-90. Demand (measured by take-up) for new central London office space rose an average 7.25m sq ft a year, from 1981-85. In 1986, demand rose by 14m sq ft. With the market for high-quality office space in the City already tight (vacancies are just 2%), Mr Priestley forecasts a shortage in central London by 1990 even if the increase in demand falls to 6m sq ft a year.

The City of London Corporation has responded to the competitive threat from Canary Wharf by relaxing planning controls. The City currently has about 45m sq ft of prime office space. According to Mr Michael Cassidy, chairman of the City's planning committee, "We have 5m sq ft

FINANCE

under construction now, and we are adding 20m sq ft to the supply over the next ten years." By 1990, the supply of City office space—thanks to new sites such as the one at Broadgate and redevelopments such as London Wall—should have caught up with existing demand. But what about future demand?

The consortium may be worried that the world's securities boom is fading. Most big investment banks in London have found accommodation to satisfy their requirements for the next few years. Salomon Brothers, for instance, recently moved into its 180,000 sq ft office in Victoria.

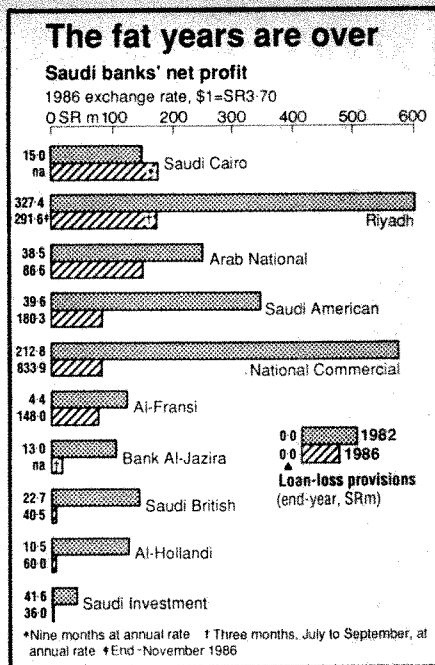
Even so, the first phase of Canary Wharf will be built come what may. This is supposed to provide 5.5m sq ft of offices three years from now. Many chartered surveyors think that only a few banks will choose to site their headquarters there. Bosses, they surmise, will prefer to stick to their familiar surroundings and watering holes in the City, where they have face-to-face contacts with customers. If the surveyors are right, the cheap rents at Canary Wharf are more likely to tempt banks to move clerical, administrative and settlement functions there. Canary Wharf is looking not only for bank tenants (with much hope pinned on the Japanese) but also hopes to attract company headquarters and business services, such as lawyers, accountants and, of course, the ubiquitous consultants.

The final Canary Wharf may be quite different from the original scheme. The City's Mr Cassidy says that if new partners join the development company he hopes some of the details can be reconsidered. He thinks that the projected three 800-foot towers (Europe's tallest) are unnecessary, since they cannot offer the horizontal space which banks prefer. He sees no need to extend the Docklands Light Railway by tunnel to Bank underground station—rather it should stop at Cannon Street or Tower Hill. These are disputes of image and prestige. If Canary Wharf is to succeed as a rival financial centre, it needs the visibility of skyscrapers. If it is to become little more than the City's back office, who needs towers?

Saudi banking

Allah's debtors?

Saudi Arabia is having a hard time reconciling the requirements of modern banking with an Islamic legal system that does not accept the concept of interest. In the past year, customers running into trouble and corporate bankruptcies have made life difficult for Saudi bankers. Things started becoming harder in 1982, when government expenditure began to decline with the price



of oil. Many borrowers are now unable or unwilling either to service or repay loans. Defaulters condemn the banks' fat interest-free current-account balances; and (they say) Islam condemns the charging of interest to borrowers like themselves—even if it is disguised as a commission or service fee.

Many banks have themselves to blame. They lent recklessly when times were good. While the Saudi economy was booming, many banks made loans secured against inflated property values or to companies that were financially shaky. Bankers often made loans to companies without even a cursory look at their balance sheets.

Now, Saudi banks, which are mostly joint ventures with (and managed by) western financial institutions, are trying hard to get their money back—but not, if they can help it, through the civil courts, which view interest as usury. The banks prefer to go to one of two committees under the Ministry of Commerce. Even then, defendants can appeal to the civil courts. Many have, and eloquently added insult to injury. They have persuaded judges to redefine past interest payments as principal, and then sued the banks for the return of any interest paid exceeding the original loan.

Small wonder that banks reported sharply lower profits in 1986. The banks' combined net profits fell from \$709m in 1982 to \$221m in 1985. Results so far reported for 1986 show profits down by a further 25%. The ratio of loan-loss provisions to loans averages 3.9%. Estimates of the proportion of doubtful loans range from 25% to 100%, depending on the bank. Lending was slashed in protest by the banks, bringing squeals from the budding private sector, which the government is anxious to encourage.

In 1986, Saudi Arabia's central bank drew up a debtors' blacklist, from which members of the royal family were excluded. It divides defaulters into four classes—those negotiating in good faith, those refusing to pay interest, those refusing to repay the principal, and those who refuse to pay anything.

Worried both about the damage to the country's international standing and about the curb on new loans, King Fahd intervened on March 10th this year. He ordered the central bank to set up a committee to arbitrate in bank loan disputes. He also suspended cases (except for disputes over promissory notes) before the courts and before one of the Commerce Ministry's committees. The new committee will have wide powers. It could freeze a debtor's assets and prevent him leaving the country—a severe action in support of banks from a country which cannot afford to look un-Islamic. The committee should speed the legal process in settling disputes; hitherto it has taken two to three years.

The government stuck its neck out further in support of the banks by revoking a ban on mortgage-based lending. This was imposed in 1981 because mortgages encouraged "sinful" (ie, interest-related) transactions. The revocation has pleased the banks who had lent against IOUs, which give them no claim on assets.

Smiles from the bankers, too, when the government ended withholding tax on interest on offshore borrowing. The tax was intended to discourage Saudis from using banks in Bahrain rather than at home. Instead, Saudi banks were hurt because they could lend but not borrow in the Saudi riyal interbank market. The change will make it easier for banks to offer investment banking products such as currency and interest-rate swaps.

Wall Street

Getting a high

NEW YORK

Almost unnoticed, Wall Street is notching up record highs. On June 23rd, the Dow Jones industrial average closed at 2,445.51, its eleventh consecutive daily increase. The rally is mainly in blue-chip stocks. It takes the form of a gradual advance, rather than spectacular 50 point in one-day surges.

Investors turned cautious in April, when the bond market tumbled because of a plunging dollar and higher American interest rates. Now that the dollar appears to have stopped falling, Japanese, German and other dollar-rich foreign investors are beginning to buy American equities again. They can cite good reasons to do so. Many think, despite a five-year bull market, that Wall Street remains good value—compared

Selling the Eurosilver

Privatisation and the strongest bull market since the roaring 'twenties have caused private investors in Europe to stampede into the bourses. Most have made big paper profits. Will they remain shareholders when stockmarkets turn down?

Some Western European countries are becoming nations of shareholders. In France, the number of private shareholders has tripled from under 2m to nearly 6m (registered budgies included) since December 1986 when Saint-Gobain, a glass maker, became the first state-owned company to be privatised. Private shareholders now account for 80% of the value of transactions on the Paris bourse. In Britain, the number of private shareholders has risen from 2½m in 1979 to more than 9m—nearly one-sixth of the population. By value, they account for 30% of all transactions in domestic shares on the International (formerly the London) Stock Exchange. By the number of deals, they account for 70%. Companies quoted on the Milan bourse have nearly 3m shareholders. Even Spain, until recently a financial backwater, has a privatisation programme under its Socialist government and a growing number of small shareholders.

In European countries, the size and nature of private share ownership differ. Privatisation apart, much depends on each country's savings habits, the nature of its financial institutions and methods of industrial funding. In West Germany, for instance, banks take long-term equity holdings in the firms they back, and hog the stockmarket.

However, raging bulls—and a little governmental encouragement—can dramatically change investing habits, even without the help of a privatisation programme. In Italy, investors had kept most of their wealth in government paper or in bank deposits, including illegal foreign ones. Those with shares usually held them in their family concern.

Then in 1983, the Italian government allowed (tax-free) mutual funds to invest in equities. They did not really take off until 1985, a year when the market index rose by 100%, to the delight of a new generation of individual investors. Italy now has the third largest mutual fund industry in the world, behind America and Britain. The funds hold shares that account for 13% of stockmarket capitalisation with a value of 70,000 billion lire (\$53 billion). In that, 1½m households have a stake.

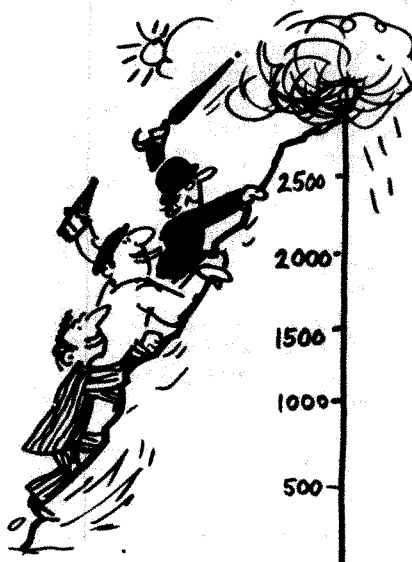
Mutual funds (known in Britain as unit trusts) have caught on elsewhere in Europe as well. Their advantage for the not-so-well-informed investor is that the investment graft is done by the fund manager. The investor merely has to choose which funds to invest in, and when.

Most such funds are aimed at the long-term investor. There is usually a front-end

fee each time units in the fund are bought; so fund managers also tend to invest for the long term. However, some managers have recently tried to lure more adventurous private investors into the mutual world. Some of the large managers now waive the initial fee for investors who think they can out-smart the market by switching from one fund to another within the same management group.

Stag parties

Governments promote privatisation and wider share ownership as a way of taking part, over a long period, in the growth of a nation's wealth. Britain's prime minister,



Mrs Margaret Thatcher, popularised the notion of a "share-owning democracy", and France's prime minister, Mr Jacques Chirac, talks of "prodigious social reform". Such ideals are flimflam for many of the private investors in British and French privatisation issues. They have discovered a sport which was once the preserve of professional investors—staging or applying for shares in companies coming to the stockmarket with the intention of selling immediately at a profit. The loyalty of these shareholders can be measured in hours rather than years.

The self-fulfilling belief that new issues afford quick returns (non-privatisation issues included) has highlighted the distinction between investment and speculation. Speculative excess is, in part, an outcome of what pundits see as a "mature" bull market. Cynics see it as an immature one.

In eighteenth-century slang, a stag was an informer. During Britain's railway

boom, many investors applied for newly-issued shares in bogus names because they did not have the cash to pay for them. Brokers kept their names in stag-books, information supplied by informers. Today, there are again plenty of investors around who do not have the means to pay for shares. But in the ebullient markets of the past five years, gamblers have often found it easy to leverage their stockmarket holdings—either by borrowing money to pay for equities or by using highly geared financial instruments such as options and futures.

France has one of the simplest methods for buying more stock on credit. If a client places an order for shares but cannot pay on settlement day, neither he nor his broker is unduly worried. The broker will pay for the shares, as long as the investor puts up at least 20% of the shares' value. The broker charges a small fee for the service and a commission—currently an annualised 8½%.

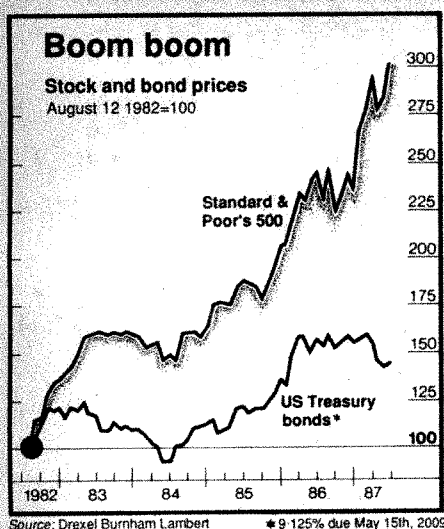
This system is not unlike that used by American brokers in the 1920s, which did much to encourage investor excess. Present-day Parisian brokers say sniffily that, in France, the system is 200 years old. It survived the tribulations of the French Revolution, the 1920s and other bear markets too.

In Britain, stockmarket leverage is less formal, though the means are simple enough. Most banks are keen to lend investors up to 70% of a share's value, if the share is then deposited with the bank. Some London brokers admit, after a 37% climb in the FT A-share index this year, that they are worried about their clients' level of gearing.

It is not just in equities that private investors are gearing up. They are increasingly dabbling in traded options, which are really a gamble on future stockmarket rises or falls. In London, turnover in traded options has jumped 175% from a year ago to around 60,000 contracts a day. One-fifth of the orders from outside the exchange come from private clients. The Stock Exchange reckons there are around 30,000 "lively" investors in traded options in Britain, many of whom write options on their existing equity portfolios.

The more free-wheeling European Options Exchange (EOE) in Amsterdam sees fewer contracts traded (40,000 a day), but private clients account for three-quarters of all outside orders. One Dutch house, Rabobank, alone has 17,000 clients who participate in traded options at least some of the time. Paris opens its own options exchange in September.

Is the small European investor becoming more sophisticated or just more gullible? For the new sorts of private investor, there are attractions and perils in the huge choice of investments available. But there are dangers for them in today's equity bull market. History has shown that when private investors gatecrash stockmarket revelry, they usually arrive—and leave—too late.



with most overseas stockmarkets. Company profits in America are rising strongly, while in Japan and West Germany they are stagnant or falling.

Drexel Burnham Lambert, a New York investment bank, expects the 500 companies represented on the Standard & Poor's index to report a 35% increase in profits during 1987-88. This is attributable mainly to "restructuring"—the vogue word used to describe corporate America's efforts to make itself more efficient. The fall in the dollar has also made many American companies more competitive internationally. Chemicals, paper, steel, technology and large multinationals are all now gaining from the dollar's decline.

Although Wall Streeters still seem to like the stockmarket, they are much less confident about bonds. The American bond and stockmarkets have parted company (see chart). The bond market peaked in April 1986; but the Dow is well above its April 30 1986 close of 1783.98. The main reason is that equity prices are no longer being driven by interest rates, but by company profits. The combination of rising interest rates and rising equity prices is, says Drexel Burnham Lambert, typical of a maturing bull market.

The easy money was made long ago, in a run which has seen the Dow advance from below 800 to over 2400 since August 1982. Why the continuing optimism? Because companies are doing everything they can to report higher profits and so get their share price up. With factories operating below capacity and with low inflation, companies have no incentive to invest in building new plants. Many companies are merging, organising leveraged buy-outs or buying back their own shares. In doing so, they substitute debt for equity. Each of these actions increases companies' share prices, and means that more and more money is chasing a contracting supply of shares.

A sign of the times came in early June when Procter & Gamble, a soap company,

announced an \$800m restructuring, including 1,000 redundancies. Analysts cheered and the share zoomed. Wall Street was happy that one of America's most conservative companies had joined the restructuring craze to boost its cash flow. Procter & Gamble was departing from a once-proud tradition. Even during the Great Depression, it did not lay off employees.

Investing in Britain

Long views on short-termism

Do City firms let British industry down in their greed for short-term profits? Surely not, say the free marketeers—Britain's capital markets are among the world's most efficient. But, retort some economists, efficient markets may themselves discourage long-term investment. Who is right? According to a recent study by Deloitte Haskins & Sells, an accounting firm, more than 90% of British companies think that City firms take a view that is too short-term in making their investment decisions. They can cite plenty of circumstantial evidence.

Britain has invested less than other industrial countries—averaging under 20% of GDP between 1970 and 1986, compared with over 30% for Japan and 22% for West Germany. Electronics companies moan that the stockmarket depresses their share price if they announce long-term projects and that this is a brake on R&D. The high turnover of fund managers' portfolios—about 25% a year—and the way some pension-fund trustees are obsessed about topping monthly league tables are also given as evidence of short-termism.

Why might City institutions have a bias toward short-term rewards? There are at

least two theories. First, though efficient in most senses, Britain's financial markets still have a few wrinkles that need smoothing. The biggest wrinkle is that investors and bankers lack information. This is the Bank of England's view. One senior London broker fears that analysts fail to understand complex industries like electronics, the business that complains loudest about short-termism. Solution: encourage shareholders and bankers to take a more active interest in their investments. Trustees, too, should be educated to lengthen their horizons, says Mr David Walker, an executive director of the Bank of England.

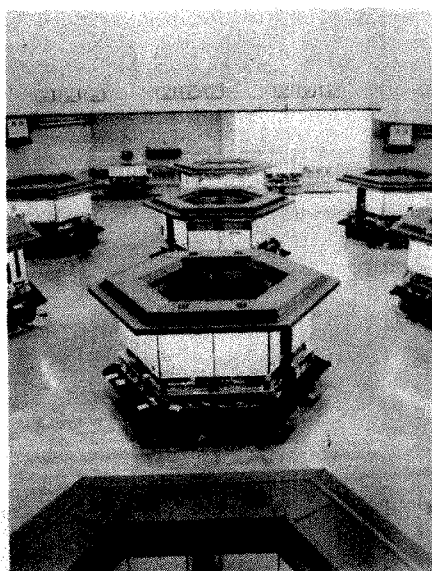
Improving the quality of information supplied in company accounts would be another help. Britain's Accounting Standards Committee plans to introduce new rules requiring firms to disclose their R&D spending, and to stop them hiding assets off their balance sheet.

The second theory is far more contentious. Instead of blaming short-termism on minor market imperfections, it blames the institutional structure of Britain's financial markets. Mr Colin Mayer, professor of corporate finance at City University Business School, argues that in highly competitive (hence supposedly efficient) financial markets shareholders keep at arm's length from their investments and banks have short-term profit motives. And the more competitive the markets, the more short term they will become.

The reason, says Professor Mayer, is lack of commitment between investors and firms. The perfect market breaks down because contracts cannot be written to cover future events. Banks have no incentive to bail out an ailing firm when the firm can shop around for better terms from a rival bank when it recovers. And a bank or shareholder can stop backing a firm's long-term strategy if a more immediately profitable opportunity comes along. So firms do not risk taking a long view.

Contrast Britain with Japan, he says. There, the banks have long-term relations with the firms they lend to (so much so that the debt they provide is like equity, he argues). Japanese banks will support struggling companies to protect a stream of future business. The stockmarket is peripheral to investment decisions, mainly because takeovers are rare. To western eyes, this smacks of an inefficient market. Look how well Japanese industry has performed, Professor Mayer says, and how economies with the "efficient" capital markets—America and Britain—worry most about their investment performance.

If too much competition in the financial world is indeed bad for industry, the case for far-reaching changes looks strong. The Trades Union Congress would be gleeful—it has long called for a national investment bank to plug shortfalls in long-term finance.

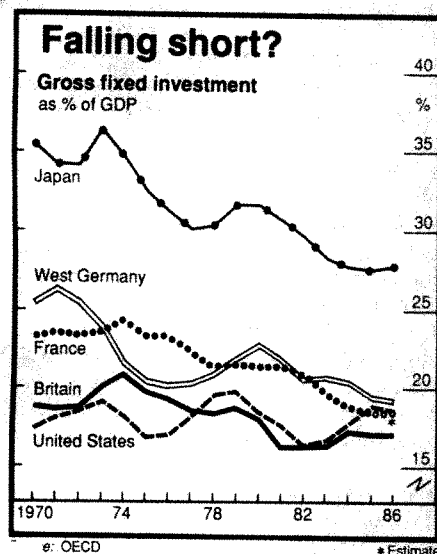


Industry prefers it empty

Others want to expand the role of organisations like Investors in Industry, a successful semi-private institution that by-passes the arms-length capital markets. Owned jointly by the clearing banks and the Bank of England, it works closely with small companies to provide long-term finance.

To those on the other side of the debate, such recommendations are based on a false premise. They argue that the free-market case has the weight of over 50 years of theory and evidence on its side. First, the theory, rooted in the economics of perfect markets. On this view, banks compete to make profitable loans; only bad projects or firms will fail to get money. Shareholders stay at arm's length from their investments, but they nonetheless value firms on long-term earning potential. The more competition there is between financial firms, the better the capital markets do their job.

Then, the evidence. Three official studies have been made of the British financial markets: the Macmillan Committee report in 1931; the Radcliffe Committee Report of 1959; and the Wilson Committee report of 1978-80. Though the Macmillan Commit-



tee uncovered the famed "Macmillan gap" in funding for medium-sized firms, and the Wilson Committee thought small firms got a raw deal, both reports essentially gave the City a clean bill of health, even though the latter, commissioned by a Labour government, would have been expected to ferret out any City shortcomings.

Copious statistical analysis by economists shows the same thing from a different angle—that stockmarkets are rational and far-sighted. Hope flickered for critics of the City when a paper, published in February this year by two econometricians, Mr Stephen Nickell and Mr Sushil Wahdhwani seemed to show that fund managers attach more weight to current than future dividends; and over five times more importance to current dividends than they would if the

French dressing

The slackness of the Paris bourse, where shares have fallen 12% from their March peak, has not caused the French government's privatisers to pause for reflection. The latest offer to the public—Société Générale, the country's third biggest deposit-taking general bank—went without a hitch. The government hopes the denationalisation of the bank will raise FF18.3 billion (\$3 billion).

Société Générale is the ninth state-owned company to be sold on the market since autumn 1986. So far, the government of Mr Jacques Chirac has raised more than FF33 billion from privatised companies, including Saint-Gobain (FF7 billion), Paribas (FF13 billion), Crédit Commercial de France (FF4 billion) and Compagnie Générale d'Electricité (FF8 billion). Of the 65 companies on the government's privatisation list, 18 are now in private hands, if subsidiaries are included along with parent companies.

Although France's privatisation programme so far has gone faster and more smoothly than many predicted, there has been plenty of criticism about:

- Earmarking shares for a hard core of institutional investors. Some Socialist politicians claim that the French finance minister, Mr Edouard Balladur, has favoured friends of the ruling neo-Gaullist party. Other critics say he has sliced his cores too fine. Some 17 institutions make up the 18.2% core at Paribas, with no shareholder bigger than 3%.
- Under-pricing. Many made quick prof-

its on the early sales. Saint-Gobain went on sale in November 1986 at FF310 a share, jumped to FF369 on first-day trading and is now trading at around FF405. Mr Balladur retorts that France judged better than Britain did with its sale of British Telecom and British Gas.



its on the early sales. Saint-Gobain went on sale in November 1986 at FF310 a share, jumped to FF369 on first-day trading and is now trading at around FF405. Mr Balladur retorts that France judged better than Britain did with its sale of British Telecom and British Gas.

Undaunted by the criticism, Mr Balladur is lining up more sales. Next to go will be Indosuez, France's second biggest merchant bank (after Paribas). Rhône-Poulenc is championing for sale. The transport minister wants a chunk of Air France sold. And after that, the Eiffel Tower?

market were perfectly efficient. It is easy to be sceptical about the sporadic resurrection of the short-termism debate. Professor Alan Budd of the London Business School explains it as a natural response to periods of bafflingly slow growth. And lots of takeovers may be evidence of inefficient managers, not of an inefficient market. An economist at the National Economic Development Office argues that firms grumble about the City because Britain has lost its comparative advantage in traditional industries; so finance is being diverted into services. Old-industry firms denied money for long-term investment are unfortunate victims of markets better at allocating capital than they are—the cruel but efficient face of capitalism. So "the market knows best" school of thought is still on top.

However, a glaring omission from research so far is a thorough comparative study of financial systems in different countries. The invisible hand may do a passable job at parcelling out cash, but other countries' financial systems, though more rudimentary or regimented, may do better. Professor Mayer and two fellow econo-

mists, Dr Jeremy Edwards and Dr Margaret Bray of Cambridge University, have begun a three-year study of capital markets in Britain, France, Japan, West Germany and America to find out.

Hongkong banking

One Fell swoop

Before he retires from being Hongkong's banking commissioner next September, Mr Robert Fell wants to leave the colony with at least the outline of a different banking structure from the one he found in 1984. By the time he clears his desk, Hongkong will be knee-deep in a review of his proposals for overhauling its system of licensed banks, registered and licensed deposit-taking companies, which range from the reputable to the risky.

The present system reflects the light touch of Hongkong's financial secretary in the mid-1970s, Sir Philip Haddon-Cave. From 1965 to 1972, a ban was put on new banking licences—well, sort of. Under Sir

FINANCE

Philip's definition of banking business, some overseas and local banks set themselves up as finance houses to compete with licensed banks for deposits and banking services.

By 1976, the government did not know how many finance houses the colony had, so it ordered them to be registered as deposit-taking companies. However, they remained unregulated by the interest-rate cartel that controls Hongkong's fully-licensed banks. In 1981, the outsiders accounted for 36% of Hongkong's total deposits. In order to reverse the shift towards them, a new category of licensed deposit takers was introduced. These needed a three-year financial track record and paid-up capital of at least HK\$75m (\$9.6m). Registered deposit takers were no longer permitted to accept deposits with a maturity of less than three months.

Until recently, this system sufficed, despite a number of bankruptcies along the way. Hongkong now has 154 licensed banks, 35 licensed deposit takers and 248 registered ones. Most of the new deposit takers belong to overseas banks unable to meet the size requirements for fully-licensed banks. The British dominate the ranks of the licensed deposit takers, which are really accepting houses. The Japanese dominate the much larger ranks of registered deposit takers; they say they would prefer a licensing system which excludes them from non-bank deposits, but permits them to handle offshore loans, securities, money-market, foreign-exchange and underwriting business.

Mr Fell wants more suggestions. Many deposit takers favour a review of capital-adequacy ratios (tightened only last year) to remove apparent discrimination against

registered deposit takers. Others want measures to encourage securities business. This week, Mr Fell suggested discussing the option of licensing all deposit takers, with the lightweights specifically restricted to "limited services". A variation on this would be the introduction of limited service banks—an idea which appeals to status-conscious Japanese institutions, and to merchant banks who find it difficult to progress from licensed deposit taker to licensed bank. Not surprisingly, the deposit takers have warned against excessive control, particularly over their securities trading business, which has grown as a reaction to the tighter supervision over banking activities.

Taiwan's foreign reserves

Home-loving

TAIPEI

With \$60 billion in foreign-exchange reserves, the island of Taiwan is drowning in money. By the end of July, President Chiang Ching-Kuo's government hopes to suspend its long-standing controls on outgoing foreign exchange, in the hope of spreading its wealth around a bit. But foreign bankers or brokers on the lookout for floods of cash may be in for a let-down. The chances are that a lot of this money will stay at home.

In the short term, nobody holding Taiwan dollars is likely to want to convert them into American dollars when the Taiwan dollar seems set to appreciate from its current exchange rate of NT\$31 per dollar to between NT\$30 and 28. In addition, most Taiwanese businessmen now see a lot of new investment opportunities at home. Gradual political liberalisation has helped another spurt in domestic investment, and there is need for a lot of innovation in export industries. Growth in domestic investment slowed from 31% in 1980 to 16.3% last year. This year, the rise is expected to be up above 20% again. And Taiwanese manufacturers report that domestic political problems in South Korea have driven some overseas customers to shift orders to Taiwan.

The restraints against Taiwanese investing overseas, which are now being officially removed, have long been more apparent than real. Even though Taiwanese were supposed to be limited to taking out US\$5,000 each, they have found ways to establish at least 70 Taiwanese companies in South Africa, and to invest in the United States and Canada as well. Illegal businesses in foreign commodities and financial futures flourish, thanks to telephone links to Hongkong and Tokyo brokers. Many lectures are delivered to Rotary Clubs about opportunities in overseas property.

Foreign exchange reserves

US\$ billion			
Dec 1980		April 1987	
W. Germany	44.5	Japan	62.9
France	25.3	Taiwan	60.0
Italy	21.7	W. Germany	55.9
Japan	21.6	France	28.9*
Saudi Arabia	20.8	Italy	23.9
Britain	18.8	Britain	20.9
Switzerland	15.3	Switzerland	19.2
Libya	12.8	US	14.9
Spain	11.3	Spain	14.5†
Holland	10.4	Norway	12.8

Source: IMF; * March; † Feb

So the money outflow will not be a flood, though it will be freer after July. The government hopes that the relaxation will help relieve Taiwan's swelling money supply. The narrow measure M1-B, which covers currency in circulation plus chequebook and pass-book deposits, was more than 50% higher in February-April than in the same months a year earlier.

Despite official controls on capital inflows (which will remain after July), about \$8 billion is estimated to have entered Taiwan in the year to this May. Some of this was returning capital, which had gone abroad when people took fright over the possible implications for Taiwan of the Sino-British negotiations on Hongkong's future. More of it was new money, betting on appreciation of the Taiwan dollar.

The government has taken steps to "stabilise" that appreciation, and some seem to be working. Early this month the central bank froze overseas borrowing by local and foreign banks, and reduced the purchase of forward US dollars from the banks to 40% from 90% of a contract's value. Banks have stopped accepting time deposits. In March, the government slapped a ceiling on inward remittances in excess of \$10,000 without government permission. One problem is that not all the money entering Taiwan arrives on paper. It can arrive as what Taiwan locals nickname "golden T-shirts". Gold is smuggled in and sold at a price after which the cash is respectably invested in the Taipei stockmarket, where share prices are rising.

The government is happy that its citizens should hold more gold, because it hopes this might help stabilise the economy against inflation. Before January of this year, the import of gold was legal, but gold trading was not, so trading flourished illegally. Up to November 1986, officially recorded gold imports averaged about 250,000 ounces a month. Since January, trading has been legal, but taxed at 5%. In a Chinese community, this strikes locals as tantamount to a tax on cash. So official monthly gold imports have dropped to about 10,000 ounces, but smuggling is on the rise. Embarrassed government officials say that they will exempt gold from the five-month-old tax "very, very soon".



Spot the bank

NEW ISSUE

All these securities having been sold, this announcement appears as a matter of record only.

June 1987



TAKARA STANDARD CO., LTD.

*(Takara Standard Kabushiki Kaisha)
(Incorporated with limited liability in Japan)*

U.S.\$50,000,000

**1¾ PER CENT. GUARANTEED NOTES DUE 1992 WITH WARRANTS TO SUBSCRIBE FOR
SHARES OF COMMON STOCK OF TAKARA STANDARD CO., LTD.**

unconditionally and irrevocably guaranteed as to payment of principal and interest by

The Daiwa Bank, Limited
(Kabushiki Kaisha Daiwa Ginko)

ISSUE PRICE 100 PER CENT.

The Nikko Securities Co., (Europe) Ltd.

Daiwa Bank (Capital Management) Limited

Yamaichi International (Europe) Limited

Bank of Yokohama (Europe) S.A.

Chemical Bank International Group

Credit Suisse First Boston Limited

Daiwa Europe Limited

DKB International Limited

Robert Fleming & Co. Limited

Merrill Lynch Capital Markets

Morgan Guaranty Pacific Limited

Nomura International Limited

Prudential-Bache Capital Funding

Salomon Brothers International Limited

Sumitomo Finance International



SCHOOLS BRIEF

Star laws

Our final schools brief on science is about the universe and how man finds out about it

The observation of the stars is at least as old as the ancient Egyptians, who charted several thousand of them. In 1609, Galileo invented the telescope, and haphazard recording gave way to something more like a proper science.

Much of the early work with telescopes was devoted to the planets. From the viewpoint of the earth, they display plenty of movement and many interesting features. Watching the planets led directly to Newton's theory of gravity.

That theory is a description, rather than an explanation, of the

Parallax measures the amount by which an object appears to move when the observer changes position. For a simple example, compare the images from your right and left eye. When you close one eye and open the other, objects appear to jump. Close objects jump further than more distant ones. Astronomers perform a similar trick with the stars by examining them once, and then looking at them again six months later.

By this time, the earth is on the opposite side of the sun: it has moved by about 185m miles. Nearby stars will appear to have jumped more than more distant ones (though none will have moved by more than tiny fractions of a degree). Using this method, the astronomers of 150 years ago already knew that even the nearest stars are tens of millions of millions of miles away.

During the nineteenth and early twentieth centuries, variants of this method expanded the known universe by adding more distant stars. Many of these distant stars were invisible both to the naked eye and to early telescopes. It was not until the 1920s that an American astronomer, Edwin Hubble, managed to show that what appeared to be dust clouds within the Milky Way galaxy were in fact farther away than anything ever observed before.

The Milky Way is a flattened spiral disc about 100,000 light years across. (This means that a ray of light would take 100,000 years to cross it. Light travels at 186,000 miles per second so one light year equals 5.8 trillion miles.) The dust clouds in the Milky Way proved to be nearly 200,000 light years away. Some other clouds were soon shown to be more than ten times that distance from the earth. Around the same time, Hubble discovered what turned out to be the cornerstone of modern astronomy. He noticed that the distances of the stars, as determined by parallax and other methods derived from it, fitted in perfectly with something called red shift.

Starlight reveals some telling patterns when it is split into its constituent frequencies by a spectroscope (a device rather like a prism). There are gaps in the spectrum at wavelengths where light is

absorbed by the star's atoms. And there are brighter parts of the spectrum where light is emitted by chemical reactions in the stars. Some stars have both these kinds of characteristic lines lower in the spectrum than other stars. That is, the light from such stars appears to be redder.

Why? One thing that might cause red shift is rapid motion away from the point of observation (ie, the earth). Light waves from a star would be stretched by the motion and thus drop to lower frequencies, just as the sound from a fire-engine siren appears to drop in pitch as it moves away from the hearer. If the whole universe were expanding uniformly, the correlation between distance from an observer and red shift could be explained.

Explaining the bang

The fact that red shift can be correlated with distance, together with the discovery in 1967 of some strikingly uniform "background" radiation from the whole sky, is the main support for the theory that the universe started with an explosion. Retrace the expansion of the universe backwards in time and it seems that once it must all have been squeezed into a tiny, infinitely dense point.

The expanding universe has replaced the "steady state" universe that Einstein believed in. The steady-state theory posits a force of repulsion between the stars to stop them crashing into one another because of their gravitational attraction. There is no real evidence for such a force. Yet just what could have caused a space-time "singularity" (which the rival, expanding-universe theory needs to explain the big bang) is a mystery, too.

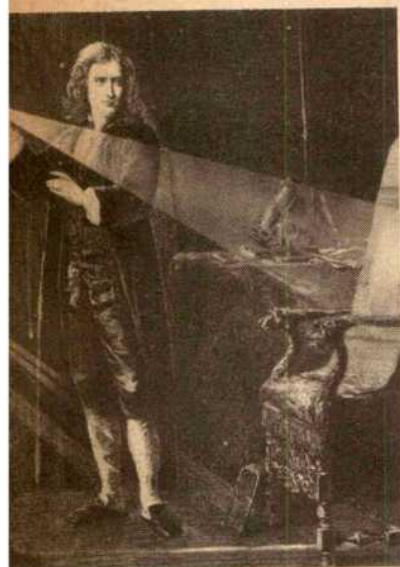
It is hard to say much about what makes a big bang possible. Two obstacles are (1) Heisenberg's uncertainty principle, which sets a limit to what can be known about the behaviour of particles inside atoms; and (2) the patchy state of current theories that try to unify the forces of nature. Still, some astronomers—Dr Stephen Hawking at Cambridge University, for example—have shown what an account of the big bang might look like when written in the language of quantum physics. Other theorists, particularly Dr Alan Guth at MIT, have explained how a big bang, however it might itself have come about, could result in a universe such as our own.

If Hubble is right (some people are sceptics, but most of the evidence is on his side), then red shifts can be used to determine distances. This correlation has opened up the universe for astronomers. Our gal-

axy appears to be one of a cluster of some 30 galaxies known as the Local Group. The nearest big one is Andromeda, a spiral galaxy rather like the Milky Way, only about twice as big. It is about 2.2m light years off.

The galaxies in the relatively small Local Group all lie within about 3m light years of each other. There are still other clusters of galaxies. The nearest, the Virgo Cluster, contains more than 2,500 galaxies and lies about 65m light years away. Some clusters are, apparently, as far as 3 billion light years away.

Nobody quite knows how galaxies came to hang around in clusters. Nor, for that matter, is it understood exactly why stars cluster themselves into galaxies in the first place. The mechanics of galaxy formation are a mystery and it is not clear how they manage to escape collapsing. One current argument centres on whether the clusters are themselves grouped in superclusters that are held together



Newton the watcher

way heavy bodies affect each other. Only much later did Newton's idea, which was subsequently modified by Einstein's theory of relativity, become central to the study of stars. It was a considerable help in working out how galaxies form.

Because they are much closer to the earth, the planets appear to move around more than the stars do. Until a few decades ago, it was impossible to detect the motion of the stars at all, except by comparing their observed position with the records that had been made centuries earlier. But even the instruments that were available in the eighteenth century could detect something called parallax. Parallax offered the first clue to the size of the universe.



Hubble shifted opinion

by gravity.

The latest guesses put the grand total of galaxies in the universe at roughly 100 billion. Each of these galaxies is thought to contain about 100 billion stars. With that many to choose from, it seems almost inconceivable that there is no intelligent life anywhere else but here. Unfortunately for the gregarious, even the most optimistic assumptions about the probability of life elsewhere make it unlikely that any of it is near enough to exchange messages with the earth.

Stars come in several varieties. Nuclear physics helps scientists to understand the insides of stars, and to say why some of them—such as our own sun—have lifetimes of 10 billion years, while others last only

a few million. One achievement of astrophysics is to explain how stars manage to "cook" hydrogen and helium (which were generated back in the big bang) into other, heavier elements.

Consider what your brain is made of. The carbon atoms that help to make up the proteins which form the cells in it were gradually cooked out of hydrogen. This happened in the cores of relatively short-lived stars that exploded into supernovae, thus scattering the heavy atoms. But the protons, neutrons and electrons inside these atoms were formed just a fraction of a second after the big bang.

Newish worlds

The solar system that man lives in is relatively young. It was formed around $4\frac{1}{2}$ billion years ago: some ten billion years after the big bang. The sun and its planets were probably born together out of a vast cloud of gases (consisting mostly of hydrogen and helium) that slowly contracted under the force of its own gravity.

The gas cloud became intensely hot as it squeezed itself up. The hydrogen in its core ignited in a controlled nuclear reaction and this somehow stabilised the fireball, which then stopped contracting. Hence the sun.

The origin of the planets is a bit more obscure. They condensed out of the solar nebula—a disc-shaped fluid formed out of the gases and dust spinning at the edge of the cloud. Heavier elements in the nebula were held close to the new-born sun, lighter ones spun further out. As the gases cooled, chunks of rock and ice built up and the gravity of these chunks attracted more debris, and they grew. That is the favoured theory.

Until a few years ago, it was merely a theory. Then some evidence arrived. In 1983, a Japanese infrared telescope picked up a cloud of particles spinning around the sun. Similar discs were spotted around more distant stars, including Vega, Fomalhaut and Beta Pictoris. Most astronomers think that these discs are planets in the making.

There is more to the solar system than the sun and its nine planets. The earth is, for a start, not the only planet with a moon. There are more than 50 other known moons, nearly half of them discovered in the past ten years. Jupiter's largest moon, Ganymede, is bigger than Mercury and much bigger than Pluto; the only reason it fails to qualify as a planet is that it orbits Jupiter instead of the sun. There are thousands of asteroids, or minor planets—most of the known ones lie

between the orbits of Mars and Jupiter—and many of them are lumps of pure metal. Thousands more may orbit the sun far out beyond the most distant planet, little Pluto.

But the main planets, and the sun, are still by far the most intriguing local objects for astronomers. The American probe, *Voyager-2*, which passed Uranus early in 1986 and has a rendezvous with Neptune in three years' time, has already posed several questions. It found a magnetic field nearly as strong as the earth's. Yet Uranus is almost certainly too cold to have the sort of molten, metallic core that gives the earth its magnetic field.

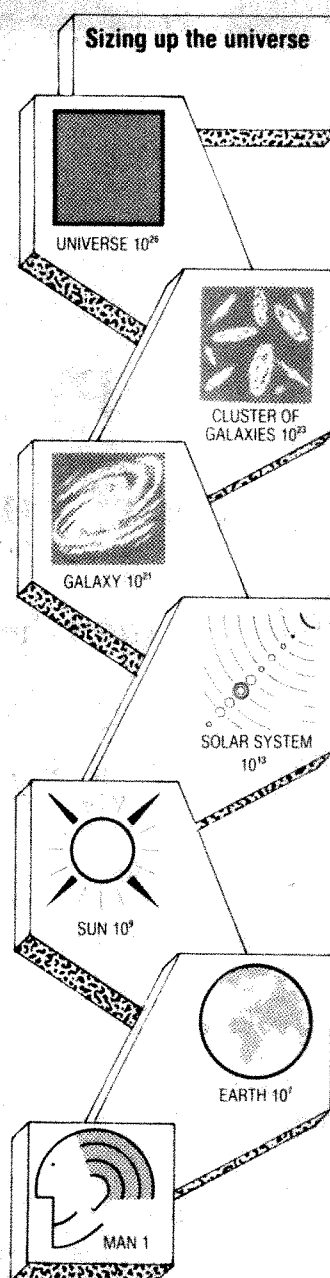
Voyager-2 did discover two more Uranian rings and ten new moons, but it failed to find out why Uranus—alone of all the planets—lies on its side with its axis pointing towards the sun. It was probably tipped over in a collision—but with what?

So far, there is no firm evidence that any planets exist outside our own solar system. This is not surprising, even if others do exist, because planets are hard to spot. Even a huge one, such as Jupiter, reflects only a billionth of the light emitted by its parent star. Thus the planets of any distant solar system are likely to be outshone by the star whose pull keeps them in orbit.

Gravity works both ways. Because of the gravitational pull exerted by their masses, planets make their star wobble. This should help astronomers to find planets outside our solar system, just as they have found some hidden stars by inferring their existence from the wobbles caused in visible stars. The wobble caused by a planet would be very slight, and only recently have techniques of observation become precise enough to discern it.

The United States Naval Observatory is keeping a close watch on some 1,000 nearby stars. A handful of them may be swaying under the influence of planets. One strong candidate in a hotly disputed competition is a relatively faint star 21 light years away, called Van Biesbroeck 8 (VB8). Sceptics point out that if there is something orbiting VB8, it is at least 20 times more massive than Jupiter. This, according to some astronomers, would make it less like a planet and more like a hybrid star-planet known as a "brown dwarf".

The next logical step in the search for distant planets is to try to see them with the help of the new generation of telescopes. The Hubble Space Telescope, which was supposed to have been carried above the earth's atmosphere on NASA's space shuttle in 1986, but is still on the ground, should be able



quasars seem to emit about 100 times as much energy as an average galaxy, yet they seem to be comparatively tiny—about the size of a few hundred solar systems.

Their size is deduced from the fact that they vary in brightness on a cycle of weeks. This implies that they measure only light weeks across. Galaxies are tens of thousands of light years across.

Just how intense the quasars' radiation really is depends on where you think quasars are. If they are closer to the earth than their red shifts suggest, they must be less energetic. Quasars have prompted some scientists to argue that red-shift is not always an accurate guide to distance. Perhaps the quasars are much nearer, but are being "spat out" at great speed. Which poses a problem: why, in that case, are they all apparently being spat out away from the earth?

Pulsars are stars whose light regularly peaks and troughs: they pulsate. When they were first detected they were thought to be signals from another world. Now they are believed to be caused by the rapid rotation of one star around its much larger neighbour. Some astronomers think that most of the stars in the universe are actually "double" or even multiple stars. Yet some pulsars pulse so rapidly that this explanation looks odd. It is hard to see how a massive enough body could move so fast.

Black holes are another puzzle. Long before anybody knew there might actually be such things, astrophysicists calculated that massive stars that are many thousands of times bigger than the sun could collapse and form something so dense that their gravitational fields would not allow light to escape. (One consequence of Einstein's theory of relativity is that light can be deflected by gravity.) This, they thought, could happen when a big star's core runs out of the fuel that it burns to prevent itself collapsing under its own weight.

Nobody has ever spotted a black hole. Detecting one is hard to do, since they swallow any light that comes near before it can be bounced back to an observer. Nevertheless, it should be possible to find black holes from their effects on light from other stars. In some cases, a black hole's gravitational field could warp the image of a star into two elongated chunks.

With this in mind, astronomers are busy scrutinising the sky to see if they can find such a "gravitational lens". So far, no luck. There was a report of one such double image last year, but it turned out to be a false clue. Astronomers are not put off. Travelling hopefully is part of the fun.

to detect objects 100 times fainter than those within the range of earth-bound telescopes. The idea is to point the Space Telescope in the general direction of wobbly stars and hope to pick up the faint light reflected by any nearby planets.

There are plenty of other big things in the universe apart from planets, stars and galaxies. Some of them are weird. Quasi-stellar objects, or quasars, are among the oddest to turn up so far.

From their large red-shifts, quasars appear to be many billions of light years away. Some of them may be as far as 15 billion light years away. If they really are that far off, they must be very energetic. The earth gets as much energy from them as it would from whole galaxies at the same distance. Typically,

\$150,000,000

PEFCO

Private Export Funding Corporation

8.60% Secured Notes, Series Y, Due June 30, 1994

The due and punctual payment of interest on the Notes is directly guaranteed by the Export-Import Bank of the United States, such guarantee being backed by the full faith and credit of the United States. Repayment of principal of the Notes is secured by the pledge with the Trustee under the Indenture of an equivalent principal amount of obligations backed by the full faith and credit of the United States, all of which obligations mature prior to the due date of the Notes.

J. P. MORGAN SECURITIES INC.

BANKERS TRUST COMPANY

CITICORP INVESTMENT BANK
CITIBANK, N.A.

DILLON, READ & CO. INC.

MERRILL LYNCH CAPITAL MARKETS

SALOMON BROTHERS INC.

BANKAMERICA CAPITAL MARKETS GROUP
BANK OF AMERICA NT&SA

CHASE MANHATTAN GOVERNMENT SECURITIES, INC.

CHEMICAL BANK

CONTINENTAL ILLINOIS
CONTINENTAL ILLINOIS NATIONAL BANK
AND TRUST COMPANY OF CHICAGO

FIRST INTERSTATE CAPITAL MARKETS INC.

MANUFACTURERS HANOVER TRUST COMPANY

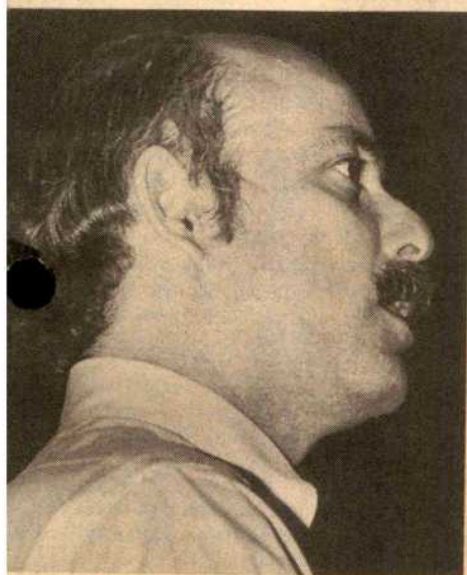
MARINE MIDLAND SECURITIES INC.

PNC INVESTMENT CO.

All of these securities having been sold, this announcement appears as a matter of record only.

SCIENCE AND TECHNOLOGY

Battling biofundamentalists



Rifkin confronts ...

Biotechnologists and the biofundamentalists who oppose them can both claim 1987 as a good year so far. Genetic engineers won a big victory when American regulators after much delay allowed the release of genetically engineered microbes into the open air. But although this represented a setback for the biofundamentalists, they

continue to do well on several fronts.

The biofundamentalists' campaign is organised largely by one man, Mr Jeremy Rifkin, who was first noticed 20 years ago as a campaigner against the Vietnam war. Mr Rifkin now runs the Foundation on Economic Trends, a tiny but feisty organisation in Washington, DC. The foundation has an ambitious mission: to protect the planet from biotechnologists. It is hard to tell how much the public agrees with him; the evidence is intriguingly mixed (see article on next page).

Mr Rifkin is now campaigning for a five-year moratorium on the release of genetically engineered material—be it microbe, plant or even animal—into the environment. He wants products tested in giant artificial environments, known as terraria.

The impact of a moratorium would be severe because good ideas are piling up—as

WASHINGTON, DC

a list of only a few of them shows. BioTechnica International of Cambridge, Massachusetts, is waiting for permission to do field tests on its nitrogen-fixing microbe, which makes alfalfa plants grow faster. Monsanto, an American chemicals multinational, has waited for two years to test its genetically altered *Pseudomonas fluorescens*, which produces a natural protein that is toxic to the insect pests which attack the roots of maize plants.

A group of European scientists at Complutense University in Madrid and elsewhere has worked out a way to introduce foreign DNA material into cereals to change their properties, and now hopes to make them more robust. Embryogen in Athens, Ohio, is among the companies working out how to do the same for animals—introducing genes that are responsible for the production of growth hormone into dairy cattle in order to boost milk production, and into pigs to produce leaner meat.

Mr Rifkin, too, is busy. He opposes the patenting of genetically engineered life, from microbes upwards. He is fighting a decision made by the United States Patent Office in April to grant patent protection to any new animals that result from such experiments: 15 such patents are pending. The issue was recently the subject of hearings in Congress. Mr Rifkin is also wading into the Baby M surrogate motherhood case, which is under appeal in the New Jersey Supreme Court. He says that the commercialisation of surrogacy, together with advances in genetic science, will lead to the "revitalisation of eugenics".

For Mr Rifkin, all these issues resolve into one big one: manipulating genes for profit, regardless of the ecological or moral consequences. He has already proved that it is unwise to ignore him. He it was who succeeded in delaying the release of the frost-resistant bacterium, *Pseudomonas syringae*, for four years. The bacterium, which had one of its genes removed, makes plants frost-resistant by protecting their stems and leaves from the damaging effects of ice crystals. Three months ago, Advanced Genetic Sciences in Oakland, California, won approval to spray a crop of strawberries



... the ultimate horror (a geep)

with Frostban (its brand name for the mutant *Pseudomonas syringae*).

True, the lack of control over an altered bacterium once it is released poses incalculable risks. The newly introduced genetic information within microbes, plants or animals might somehow seep into neighbouring wild life with unforeseeable consequences. Mr Rifkin points out that insect pests and rabbits caused havoc when they were introduced to alien environments.

Most scientists are more sanguine about the risks. No adverse effects from the release of Frostban or other similar frost-resistant microbes have been observed and the potential savings to the American farmer are plain. Ten years of laboratory tests suggest that the likelihood of genetically altered microbes causing damage to the ecosystem is remote. American agrochemical companies, which have already spent heavily on tests, cannot see what more Mr Rifkin's five-year moratorium could prove.

Besides, the release of genetically engineered products can be a relatively controlled event. Suppose a meddling biotechnologist changes one gene in order to produce some desirable characteristic in a genetically altered creature, be it bug or

SCIENCE AND TECHNOLOGY

behemoth. Compare this with the all-too-natural Gypsy moth, an unregulated parcel of tens of thousands of genes, primed to disrupt the ecosystem, that was accidentally transported from France to Massachusetts in the 1860s.

Gypsy moths, however, do not affect "species integrity", which Mr Rifkin cherishes. He wants to stop any experiments in which genes are transferred from one species to another, thus bypassing the genetic boundaries that "naturally" divide species and make inter-breeding between animals usually impossible. Scientists manage to mix breeds because even though the number and type of genes differ from animal to plant, their chemical structure does not.

Mr Rifkin sued the American Department of Agriculture in 1984 in an attempt to stop research involving the transfer of genes between higher animals to breed bigger livestock, but he lost the case. The Recombinant DNA Advisory Committee, which exists to oversee federally funded genetic-engineering research, said that the benefits of such work—finding new treatments for human and animal diseases and the development of more efficient food sources, for

example—were too great to ignore.

Since then, scientists at the University of California at San Diego have inserted the gene that codes for an enzyme called luciferase—which is responsible for a firefly's glow—into the genetic material of a plant. The plant now glows in the dark like a firefly, which shows that the genetic equipment of a plant can accept animal genes. Mr Rifkin regards this sort of gene transfer with horror, and prophesies a world filled with Minotaurs and other mutants. The question has increased urgency because the patent protection recently granted to genetically engineered animals will encourage similar experiments. The cost of such work would be hard to bear without the prospect of an exclusive product.

The sort of species integrity that Mr Rifkin demands cannot be attained. Evolution itself works by forging new genes within species. If Mr Rifkin objects to that, and had had his way millions of years ago, none of today's familiar plant and animal species would be around for him to treasure.

One human gene added to a bull does not a Minotaur make—nor does it violate the

integrity of cattle as a species. More ambitious genetic experiments would anyway fail because the genes would be incompatible, or would result in a creature incapable of reproduction. The geep, a now-infamous "mosaic" made at Cambridge University by fusing the embryos of a goat and a sheep, was sterile, like the mule.

Similarly, the side-effects of other breeding experiments involving genetic engineering have been little different from those of their classical counterparts. In November 1986, the American agricultural department's experimental station at Beltsville, Maryland, announced it had managed to produce a line of deformed, arthritic, rust-coloured pigs by inserting the gene for human growth hormone into the pig's genetic machinery. These pigs produced similarly unfortunate offspring.

Most biotechnologists applauded the technical achievement involved in thus injecting foreign genes into fertilised animal eggs. Mr Rifkin and his associates immediately seized on the arthritic pigs and claimed that genetic engineering would increase the prevalence of disease in the animal kingdom. Yet such aberrations are

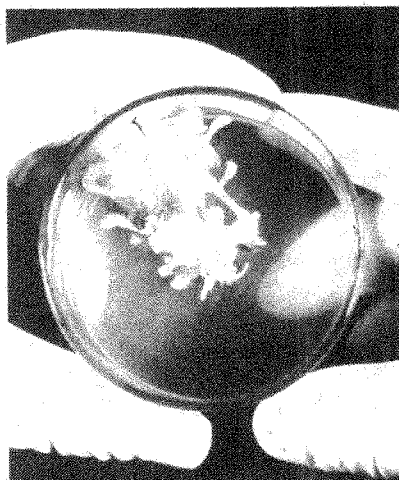
Measuring bioAngst

Most biotechnologists grew up in the 1960s, when "natural" or "organic" automatically meant "good". This explains why many of them were attracted to biotechnology in the first place. It provides a way of tinkering gently with what is already found in nature. Ironically, today's opponents of the fledgling industry maintain that biotechnology is dangerous precisely because its products are alive.

At the end of 1986, the American Congress's Office of Technology Assessment (OTA) began a survey of public attitudes towards biotechnology. The results, recently published, show that attitudes to meddling with nature are somewhat paradoxical.

Nearly three-quarters of the over 1,000 Americans polled by the OTA thought they knew something about genetic engineering. Over half of them could give some explanation of what it involved, though not all of them were accurate. Some thought it was "the altering or manipulating of genes" (not quite: genetic engineers take genes from one organism and put them in another), or they confused it with selective breeding—which untutored humans do all the time when they marry.

A couple of decades ago, the term DNA was unknown outside research laboratories. Now half of the adult American population claims to understand it. Actually, Americans have become rather *au fait* with biological terms, or think they have: one in seven claims to understand the relatively obscure notion of a monoclonal antibody.



Worrisome to some

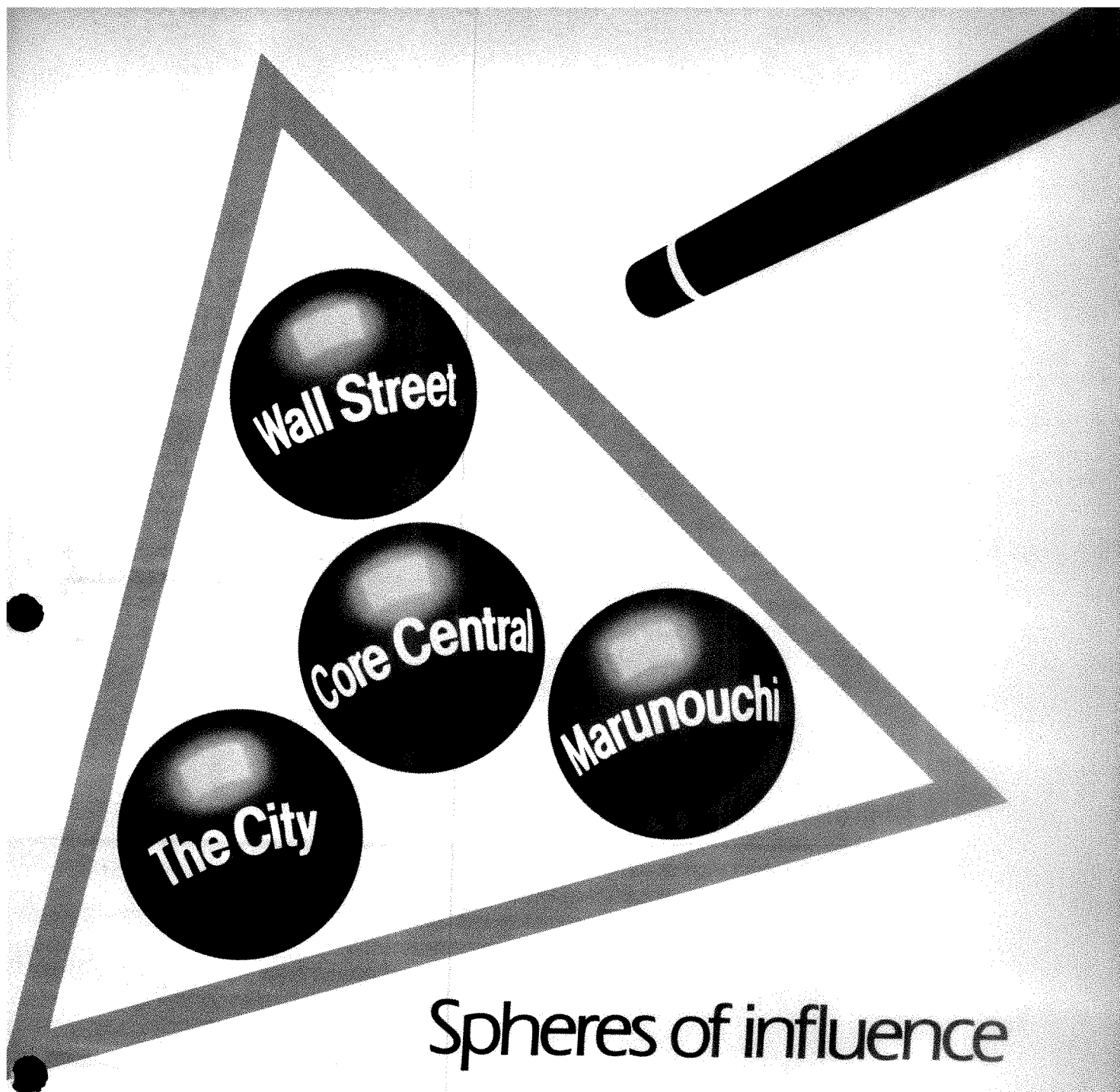
Some 60% of Americans think that genetic engineering will improve their quality of life, thus placing it higher than nuclear power, but way below solar energy. However, the proportion of Americans who think that genetic engineering will somehow make life worse has risen from 16% in 1982 to 22% last year. The rightness of genetic engineering seems to depend on the type of creatures involved. Manipulating the genes of plant cells is okay; playing around with human cells is not. Bacteria and animal cells lie somewhere in between.

Only 19% have heard of any potential dangers from genetically engineered prod-

ucts; fewer still can specify what those dangers are. The most common worry is how to control the spread of a product once it has got out of the laboratory. More than half of the sample think it "somewhat likely" that genetic engineering will present a serious danger to the environment. People fear, for example, that genetic engineering will create diseases that are resistant to antibiotics; birth defects in humans; herbicide-resistant weeds; and some sort of danger to the food supply. The dread of bugs looms large. Most think that mutant bacteria present the biggest threat of all.

Americans fit the textbook definition of reasonableness: most of them say they are willing to accept some degree of risk provided the benefits seem worth it. Some benefits, such as new treatments for cancer, new vaccines, and crops that are resistant to disease and frost, are high up on the shopping list. More productive farm animals and larger game fish are not. Eight out of ten Americans would permit modest field tests of genetically engineered creatures. Two-thirds would allow such tests in their own backyards, but the OTA did not collect addresses.

There is an abiding fear of anything that smacks of eugenics. The possibility of inserting genetic material into human reproductive cells in order to prevent offspring from inheriting diseases ("germ-line therapy") is still remote. It is also unpopular: 42% of the American public hold that it would be morally wrong. Nevertheless, nearly 80% of Americans would be prepared to have their genes tampered with to treat a serious or fatal disease in themselves.



Spheres of influence

Every city has one.

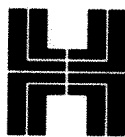
To big business and high finance, it's the city's heart.

The place where the action is.

In Hong Kong, it's Core Central.

The home of Hongkong Land's portfolio of fine buildings.

Please call Jonathan Petit or Christopher Chan
at Hongkong Land (5-8428288)



Hongkong Land

It pays to address yourself properly

The successful issuing of
Eurocommercial Paper is fairly simple.

All you need is a good name
and great timing.

For starters.

The simplicity of issuing Eurocommercial Paper and its strong appeal for investors have made it an increasingly popular source of funding.

And the most important ingredient in its success has been its flexibility.

A Eurocommercial Paper program allows you to expand or contract the amount of paper you have out in the market and, at the same time, offers investors a wide range of maturities.

It's this flexibility that has helped to attract a broad base of investors willing to invest and to hold the paper until maturity. And that's the kind of investor that every issuer likes.

So why turn to Chase?

Because, through our global network, we can access a vast pool of institutional investors and high net worth individuals.

And, through our corporate banking franchise, we can also access the increasingly important corporate investor too.

In fact, our retail placement volume (now approaching US\$1.5 billion a month) means our finger is constantly on the pulse of investor demand, enabling us to provide you with accurate and continuously updated opinions on the state of the market.

The result is that we're able to carefully time an issue of your paper to keep your funding costs down.

And as a dealer for 70 issuers with a total program volume currently in excess of US\$20 billion, we've also created numerous market innovations along the way. For example, the first tender panel and also the first multi-dealer program for a corporate issuer — concepts that have become recognized as standards for the market.

While our track record speaks for itself, there's another reason why it makes sense to turn to Chase.

Since it's important to an issuer to be able to tap the true retail investor, it's also important to the investors that they're offered market liquidity too.

That's why at Chase we're not only a major factor in retail placements but also a leading market-maker. By always providing a two-way market, we're constantly there to support our issuers and our investors all the way down the line.

It's this kind of track record and this kind of commitment which gives us the credentials which, when combined with your good name, help to ensure a successful issue.

So, if you're looking to tap the Eurocommercial Paper market, it makes sense to talk to Chase.

For starters.

EUROCOMMERCIAL PAPER

For further information please contact your Chase Relationship Manager or Mike Zavelle in Tokyo on (3)287-4082, Oliver Greeves in Hong Kong on (5)843-1200, or Jack Seth in Singapore on 530-4246.



CHASE

In a class by itself.

Air-India was the second airline to use the new GE CF6-80C2 engine to power new widebody airliners.

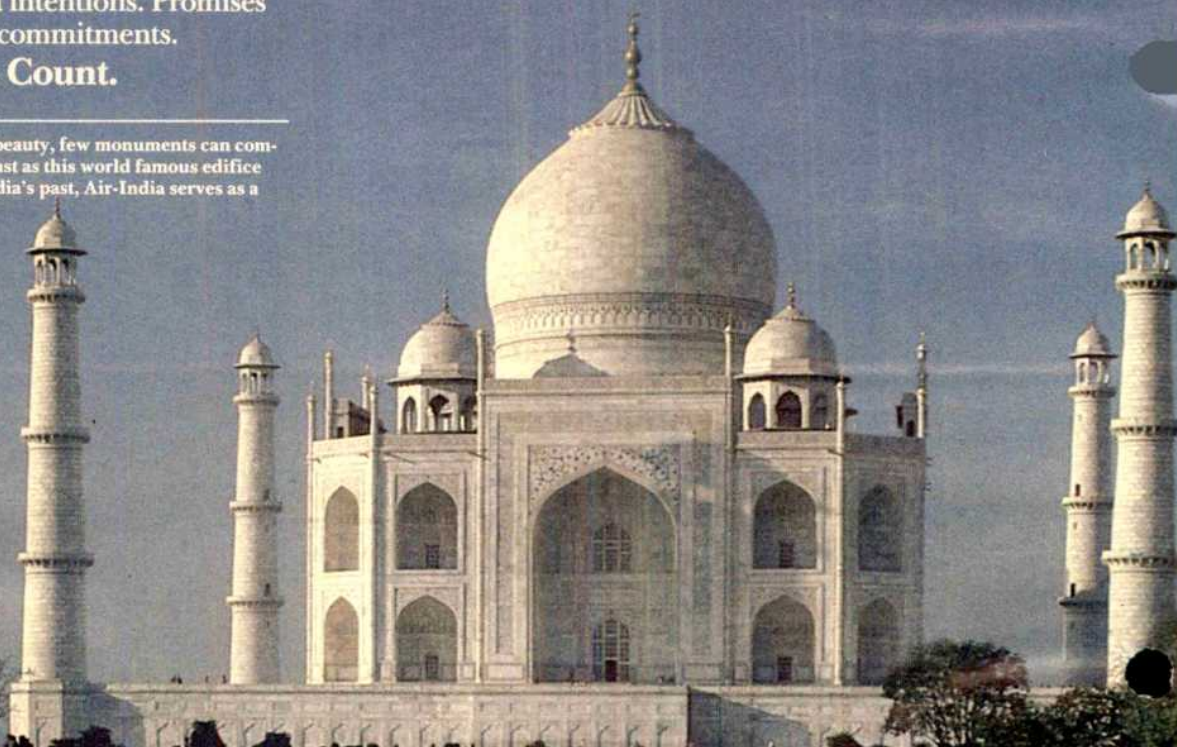
Like other airlines using the -80C2, Air-India has experienced none of the growing pains normally associated with an engine introduction.

By every standard, the engine has performed at exceptionally high levels: on-time departures, fuel efficiency, reliability, everything. Also, because of the proven reliability of the -80C2, twin-engined aircraft are already flying the most direct possible routes, offering added passenger convenience and higher airline profitability.

It all starts with an attitude: We believe that promises should not be just a matter of good intentions. Promises are meant to be commitments.

Promises Count.

For sheer elegance and beauty, few monuments can compare to the Taj Mahal. Just as this world famous edifice serves as a symbol of India's past, Air-India serves as a symbol of its future.



GE Aircraft Engines

quite common during ordinary animal breeding experiments, in which the genes are not manipulated. In fact, one aim of genetic engineering is to increase the ability of animals to resist the diseases to which classical breeding experiments have rendered them susceptible. Battery hens bred to produce more eggs are, for example, sickly creatures.

While many scientists are concerned about the ethical and environmental issues raised by biotechnology, they see Mr Rifkin as an oversimplifying eco-crank, driven by a destructive nostalgia for a world before intensive farming, scientific breeding and agrochemicals, who has debased the terms of the biotechnology debate. Yet, however absurd he may sometimes appear to scientists, Mr Rifkin has succeeded in taking the "bioethics" debate out of university philosophy departments and into the courts, thus frustrating the fledgling industry's efforts to become profitable. Mr Rifkin is more than simply a thorn in the industry's side. He is as dangerous to biotechnology as he believes the industry could be to man.

Killer robots

Coming soon to a factory near you

TOKYO

Electronic smog may sound the stuff of science fiction—but it kills. Not only that, but it can make robots do the killing for it. Japan has about 80,000 robots toiling in its factories and is starting to get worried.

Since the Japanese Ministry of Labour started counting casualties in 1978, ten Japanese factory workers have died at the hands of robots. Several more are injured every year when robots go berserk. In each instance, something triggered the robot into unexpected action. In one incident in

—a black year in which robots killed four people—a robot under inspection suddenly moved forward, and ran over its inspector. In another incident in the same year, a robot arm swung at a worker, giving him a deadly, automated karate chop.

Dr Keizo Okabe, a university professor in Tokyo, thinks he has found out what made robots become homicidal in at least one, and perhaps six, of the incidents. In 1982, a robot lathe at a valve plant in Yamanashi prefecture started up and turned on its operator. Dr Okabe thinks he has tracked down the culprit: a freak electromagnetic wave generated by a nearby crane was picked up by the machine's numerical control system, triggering off the lathe.

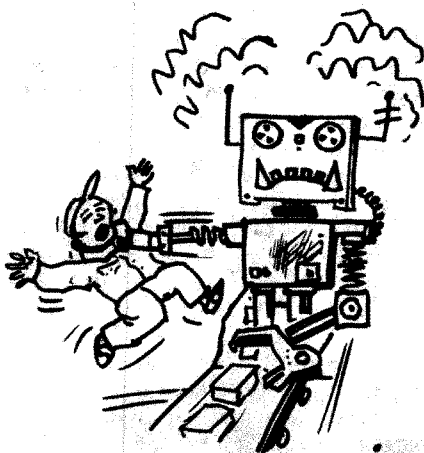
Dr Okabe sees a dangerous profusion of such unwanted electromagnetic waves—

which he calls electronic smog—because so many sensitive microelectronic gadgets are entering factories, offices and, increasingly, homes. He worries most about emissions from personal computers. Because PCs emit a broad range of frequencies, their effects on nearby pieces of equipment are hard to predict. Dr Okabe has counted 150 "disruptive" incidents that he believes were caused by rogue electromagnetic waves.

Most electronic smog is irritating but harmless, causing nothing more than interference on television screens. Some incidents merely cost companies money. But Dr Okabe's team came across some chilling examples that narrowly avoided costing lives. In the summer of 1985, Osaka airport's radar was blanked out by signals from a booster for a television antenna on a nearby house. Dr Okabe also found two cases of commuter-train doors opening when they were meant to be shut. A video-game arcade close to a station turned out to be one of the culprits.

The problem is not confined to Japan. Some Americans with heart trouble fret about reports that pacemakers—and their owners with them—can be switched off by signals from radio hams and burglar alarms. Urban myths, perhaps. In 1986, Japan's Ministry of Posts and Telecommunications took the threat of electronic smog seriously enough to set up a study team under Dr Okabe.

The ministry is now pondering the professor's recommendation that industrial standards should be established to make electronics manufacturers build shields into their products, both to stop electronic smog from leaking out and to protect them from it. Dr Okabe could find no one particularly dangerous set of frequencies. He wants the government to issue general guidelines and to require manufacturers to remodel their products if they fall foul of them. The ministry replies that electronic smog is a worldwide problem and that any industrial standards would first have to be agreed internationally. In the meantime, presumably, the robots can romp.



Nutrition

Fibre morals

To the shoppers who have learnt to peer at food labels in search of clues about fibre, the link between fibre and health seems simple enough: more is good for you, less is bad. Yet research into the nutritional value of fibre is hampered by the lack of an agreed definition of what exactly fibre is, and how it should be measured.

Four years of trials in Britain, Denmark, and Canada have now convinced Britain's Ministry of Agriculture, Fisheries and Food (MAFF) that a reliable method of gauging fibre's virtues has been found. The method was developed by Dr Hans Englyst at the Dunn Centre for Clinical Nutrition in Cambridge, England. MAFF has told food manufacturers selling in Britain to use the Englyst method to measure the fibre content to be shown on their products.

Dietary fibre is made up of simple sugar molecules bonded together in long chains called polysaccharides. Unlike starch, which is also a polysaccharide, chains of fibre cannot be broken down by digestive enzymes. Dr Englyst's method separates true fibre from "resistant starch"—starch that has been rendered indigestible by cooking or processing. The amount of soluble and insoluble fibre in food is determined and the polysaccharides are broken down further so that the simple sugars making up the chains can be measured.

Different components of the chemical mixture have different effects. The soluble part lowers the concentration of cholesterol and sugar in the blood, probably by trapping them in the small bowel and interfering with their absorption by the blood. This is thought to lower the risk of heart disease and some types of diabetes.

Fibre probably does most of its good work in the large bowel. All the substances people eat that cannot be absorbed from the small bowel end up in the large bowel. This includes some starch as well as fibre, food additives, environmental chemicals, and toxic substances which have been removed from the blood by the liver and dumped in the digestive system. Once in the large bowel, they become food for bacteria.

Relations between these microscopic boarders and your stomach are not one-sided. In exchange for the leftovers from human digestion, people can absorb some of the products of the bacteria's digestion. The volatile fatty acids made by the bacteria are useful, and at least one substance they manufacture, vitamin K, is essential. However, the evidence is clear that the bacteria also produce substances that are toxic or carcinogenic.

Dr Ian Rowland and his colleagues at the British Industrial Biological Research As-

Of mighty falls and the fallen mighty

Isaac Newton's *Principia*, which was first published 300 years ago next month, is best known for the three laws of motion. These laws say that an object will move at a constant speed in the same direction unless acted on by a force; that the said force is simply the product of the object's mass and its acceleration; and that for every action there is an equal and opposite reaction. So far, so good.

From these three principles, Newton derived the law of universal gravitation, which says that the gravitational attraction between two objects is proportional to the mass of each object, and decreases with the square of the distance between them. This allowed him to work out the details of planetary motion and to give a theoretical basis to what Galileo had observed, that things fall just as fast whatever they weigh. Unfortunately, it now turns out that Galileo was wrong.

Heavier things do fall faster, whatever you were taught at school. So argues a paper in the *European Journal of Physics* by Dr John Donoghue and Dr Barry Holstein of the University of Massachusetts at Amherst. The difference in rates of fall is explained by thermodynamics, the study of heat and motion. Every object in the universe has a temperature and there are various measures of an object's energy that depend on that temperature. One of these measures is internal energy, which is the total energy contained in the object. Another is free energy, which is the total amount of energy that can be converted to work.

Internal and free energies are related but not the same (unless the object's temperature is absolute zero, when there is no energy of any sort). Just as the motion of an object in an electrical field depends on its electrical charge, so the motion of an object in a gravitational field depends on its internal energy. However, the acceleration of an object under the influence of a force is determined by its free energy.

Newton did not know anything about internal and free energies.

As Einstein showed, mass and energy are equivalent. Think of an "internal mass" and a "free mass" and it is fairly easy to see where Newton went wrong. The mass in his law of universal gravitation refers to "internal mass", whereas the mass in his second law of motion is "free mass". The relation between the two is such that the heavier an object is, the faster it falls.

Newton cannot blame Galileo for producing bad data. From a practical standpoint, the difference in rates of fall is nil. At room temperature the effect on the acceleration of an electron would be no more than a few parts in 100 million billion. Even today, the best experiments are accurate only to within one part in 1,000 billion. Galileo never had a hope of getting it right. *Principia's* glory remains untarnished.



sociation are studying how the bacteria affect the toxicity of drugs and chemicals. In many instances, the toxicity of a substance fed to an animal that is reared normally differs dramatically if the animal is raised in sterile conditions and has no bacteria to contribute to the chemical processing of the substance. The bacteria have been found to convert toxic or carcinogenic substances into innocuous ones, and vice versa. They can also amplify the effect of toxins by chemically altering toxins excreted into the bowel by the liver so that they are reabsorbed by the blood and must be removed by the liver again.

Dr Rowland is studying the effect of diet on the activity of the bacteria, which is hard. The bowel houses an ecosystem as complex as that of a tropical rainforest,

containing up to 400 species of bacteria. What a person eats changes the environment of the large bowel and the activity of the bacterial enzymes. Eating more fibre provides the bacteria with more food and they multiply. Their bodies contribute to the "bulk" that is thought to help prevent constipation and piles. But it is the activities of their enzymes which could provide the key to how diet affects the risk of cancer of the colon and other parts of the body.

Tests performed on the faeces of a volunteer fed a "typical western diet" have shed some light on fibre and cancer. When the volunteer included 30 grams per day of bran in his diet, the carcinogens virtually disappeared. On the other hand, a team at the Chemical Industries Institute of Toxicology in North Carolina found that feed-

ing a different sort of fibre, pectin, together with the dye red-2 to rats increased the rate at which bacteria converted the dye into a carcinogenic chemical that can be absorbed by the blood.

Decorative plants

Nice, but dead

LOS ANGELES

As secret projects go, it's not much. A sprinkling of biochemists, a plant physiologist or two and a small force of marketing people. But one of America's largest timber and forestry companies, Weyerhaeuser, which had a turnover of more than \$5 billion last year, has a hush-hush idea that it hopes will become a significant part of its business: dead plants.

At the beginning of June, Weyerhaeuser's nursery division installed its first mummified palms, junipers, hollies and ground cover in the lobby of the Oakbrook Terrace office building in Oakbrook, Illinois. The advantages of mummified plants in office buildings, hotels, restaurants and other public buildings are obvious. There is no need for expensive irrigation systems, special lighting or large amounts of steel and concrete to support the weight of large interior gardens. This gives architects more space to play with, and is cheaper.

Like the ancient Egyptians, Weyerhaeuser is keeping the exact details of its mummification process secret. The company recently bought the American patent and marketing rights for it from a Swedish company called Swede Plant. The technique seems to work well on most trees and evergreens, but less well on flowering shrubs and rubber plants. Under carefully controlled humidity and temperature, prime specimens of the plant to be mummified are suspended in a liquid based on glycerine and water until the plant has absorbed all of the mystery chemicals. Colours, in the form of simple food dyes are added to produce a lush, and sometimes surrealistic, look.

Weyerhaeuser claims that the plants retain a natural look, feel, texture, and occasionally even the fragrance of the real thing. In Europe, the plants have already appeared in several Trusthouse Forte hotels and on the ferries that run from Sweden to Denmark.

The company hopes to take the technology further and apply it to outdoor plants as well. The process works particularly well on wild grasses—which suggests, perhaps, bad news for lawn-mower manufacturers and good news for the lazy. Quiet Sundays with no grass to mow are, however, still a while off. The process is badly affected by an outdoor environment of rain and changing temperatures.

BOOKS AND ARTS

Fear is the key

THE AGE OF TERRORISM. By Walter Laqueur. *Weidenfeld and Nicolson*. 385 pages. £17.95; Little, Brown. \$19.95. **THE BAADER-MEINHOF GROUP.** By Stefan Aust. *The Bodley Head*. 560 pages. £18

Mr Laqueur's "Age of Terrorism", published ten years ago, was widely acclaimed as a study of unusual depth and force. He has now brought it up to date—this is more than a second edition, it is a reworking of the whole book. As such, it takes its place as a leading standard text, from which the sensible can study the fanatic.

He begins from the premise, historically sound, that his subject is not new. Terrorism was known in classical times (Brutus or Harmodius) and in crusading times—the original Assassins left a dagger on Saladin's pillow. It flourished in Machiavelli's Italy, in nineteenth-century Ireland, Russia, America, Spain, Switzerland. He explains, without sympathy but with full understanding, what philosophy now lies behind it. Babeuf set the tone, during the French revolution: "All means are legitimate against tyrants." Tyrannicides make up their own minds who the tyrants are, and seek to destroy them suddenly; in the phrase of Tikhomirov, an ardent activist in his youth who "led a conservative, 'creating power out of impotence'". The Russian prince Kropotkin first advocated terror, then changed his mind and advocated peaceful anarchism. Several active anarchists threw bombs in the two decades after 1890, each acting for himself alone.

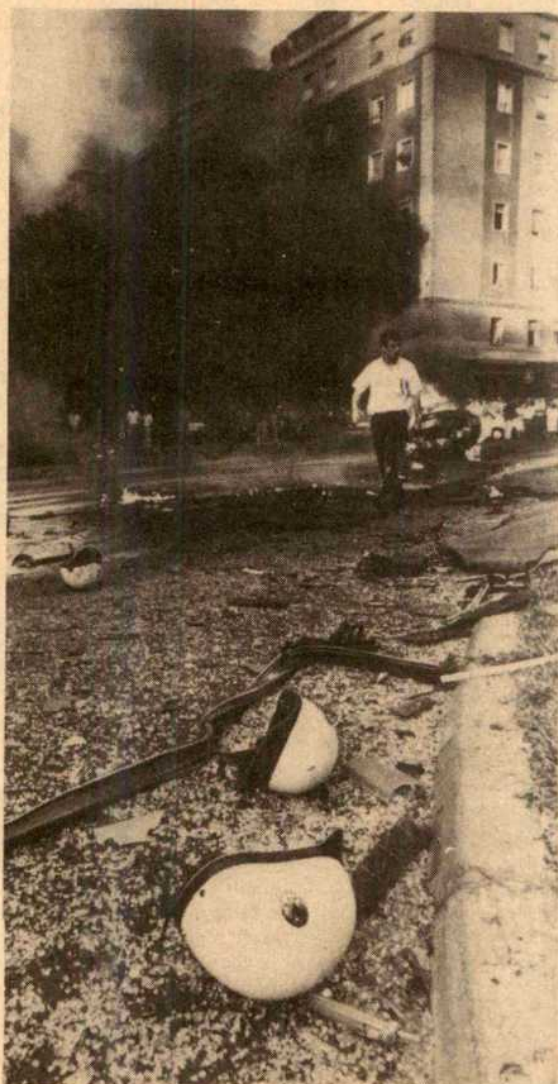
In some countries with a tradition of political violence, such as Ireland and Spain, terror took its place for years as an habitual part of the social scene, terrorists and criminals often finding it convenient to act together. A group of young Russians were hanged in 1887 for having tried to kill the tsar; one of them, Alexander Ulianov, had a younger brother now world-famous under his pen name of Lenin. In British India, the Hindustan Socialist Republican Association—founded in 1928—put out a pamphlet called "The Philosophy of the Bomb". Gandhi denounced them, preaching non-violence instead; in 1948 he fell victim himself to a terrorist from a Hindu gang, who seems to have been acting on his

private initiative.

Mr Laqueur shows that Marx, Engels (who had links with the extremist Irish Fenians), Lenin and Trotsky were all ambivalent in their attitude to terrorism: they deplored it as a diversion from the class struggle they thought central to progress, but admired it when it happened to get rid of someone of whom they disapproved. Current communist doctrine regards terror as one military weapon among many, though "usually not a decisive one". The same could be said of the regimes of the extreme right in mid-twentieth century Germany, Italy, Romania and Japan, which used terror against opponents *pour encourager les autres*. Other students of such regimes, of Nazism especially, are inclined to say they were founded on and maintained by terror.

Mr Laqueur is concerned with the gunman or bomb-thrower who acts in opposition, not with the secret policeman who is the prop of an established order; with the use of covert violence by a small group for political ends, usually directed against a government, though it can be directed against other groupings than the gunman's own. He avoids propounding a set "terrorist personality", for he knows too much about his subject to generalise: even to the common remark that most terrorists are young, he can produce current examples of those in their fifties. He notices that some of the most oppressive current regimes have no terrorism at home, but encourage it abroad: a political paradox he states, but cannot do much to resolve.

Nor does his rich and intriguing book embark on the question raised by modern total war: were the attacks on Guernica, Coventry, Dresden, Hiroshima lawful acts of war, or abhorrent acts of terrorism? Instead, he discusses terrorists' current armaments and finance. What was done on a shoestring a century ago now seems to call for millions of dollars. He gives a summary survey of where most of this spending is going on, and remarks on how modern terrorists look to journalism and television to give them the publicity they crave, without which their movements wither. A chapter summarises many novels with terrorist themes. Others deal with the nationalist, separatist



Street violence

BOOKS AND ARTS

and international aspects of terrorism, and consider whether it is a force for progress or for blockage.

He shows that the terrorist's aim is dominance, however much he (or she) proclaims a cause of freedom. "It is the terrorists' aim not just to kill but to spread confusion and fear": hence the growth of "narco-terrorism", hijackers and drug-smugglers working together. Drug-runners, if successful, can help to meet the terrorists' large bills for intelligence and for arms. He concludes that "Terrorism creates a tremendous noise, but compared to some other dangers facing mankind, it seems almost irrelevant."

Mr Aust has written a much more discursive, less close-knit study: a journalist's book, not an analyst's, excellently translated by Anthea Bell. He worked for some years on *Konkret*, the newspaper on which Ulrike Meinhof also worked, and makes no secret of having been a sympathiser of hers. His book has too many passages in direct speech to command full credence as an historical record, but it gives the flavour of the group.

The IRA

Bloody rebels still

THE PROVISIONAL IRA. By Patrick Bishop and Eamonn Mallie. Heinemann. 374 pages. £12.95

Ireland, fickle mistress, lays curses on her lovers, not least of which is a mission to explain why she is just so. Of the making of books about the Irish problem there is no end, nor likely to be one. With this book, readers are spared the agonies of the genre.

Where hearts are conventionally worn on sleeves, they keep theirs covered, and all the better for it. Mr Bishop, his Patrick ancestral rather than geographical, works for the London newspapers. Mr Mallie works for Belfast's commercial radio, his Eamonn, maybe, helping to secure his many scoops and insights into the mind of militant Irish republicanism. Both are excellent reporters (but not such good proof-readers, especially in Irish).

The Irish Republican Army that they

describe is neither smart nor lovable. "Of the 106 IRA men who died between 1969 and 1973, 44 were blown up by their own bombs, though this is hard to discover from the Provisionals' roll of honour." Thrills, not political ends, are what many terrorists sought. "Eyewitnesses to the assassination of a school bus-driver and part-time UDR man in 1984 described how his two killers whooped with joy as they escaped on a motorcycle."

Nasty as the combatants are, the fight against the British is an inextricable, intractable lump of Ireland's history. That is the authors' problem. The Provisional IRA was born in 1969, of a split in the militant nationalist movement. Its pre-history back to 1798 is covered in 90-odd brisk pages, and the renewed split in 1986 (on the same issue: recognition of the government of the Irish republic) gets a brief postscript.

The intervening period, which is the book's subject, is recounted as a whirl of names, murders, demonstrations, intrigues. Great upheavals—the Protestant workers' strike of 1974, the Peace People movement of 1976, even the Anglo-Irish agreement

Of leather on willow

Money and gentility, wrote Mary Russell Mitford after watching her local side play an England XI in 1823, would ruin any pastime under the sun. Perhaps. But the subsequent history of cricket, and of its former governing body, the Marylebone Cricket Club, has shown that it has rested on the uneasy cohabitation of the two.

Tony Lewis's *Double Century: the MCC and Lord's** and Benny Green's *The Lord's Companion*** have been published to mark the bicentenary of the club. Both are at their best in describing its casual, countrified, slightly raffish infancy. Thomas Lord himself was no philanthropist; his was a cricket ground because that was the game his aristocratic patrons wanted to play. It might have been anything else, and often was: in 1844 a tribe of Red Indians camped there.

Nor were those patrons, and the crowds when they came, drawn purely by love of the game. A great deal of money was staked (on-course betting disappeared only in the late 1870s), players were bought, matches fixed. Indeed, one major reason for the publication of successive versions of the laws of cricket, from the eighteenth century, had been to regulate gambling. In this sense the laws were as much a code of honour as a set of rules governing play. The MCC had acquired this legislative function almost by accident. But it was to be central to its survival during the lean years in mid-century, and crucial for the evolution of a private club into the game's supreme authority.

Then, around 1850, a pall of gentility settled on the game. It has never quite lifted. Cricket was no longer a game but an



A lot of flannel

ethic, the embodiment of a quintessential Englishness. Just how pervasive this view was can be seen from *The Faber Book of Cricket†*, edited by Michael and Simon Davie. The editors throw in modish references to various sorts of mayhem, but much of the writing is fuelled by a vision of a pastoral, pre-industrial, even prelapsarian world.

While most sport has a literature, whether Marianne Moore on baseball or Montherlant on bull-fighting, cricket has *littérateurs*. Even Mr Green can do no better, when it comes to fiction, than large chunks of Galsworthy and Ernest Raymond. His "Companion", by contrast, has an agreeably Thackerayan flavour. The narrative voice—and a good deal of it is heard—is omniscient, worldly-wise, with a cynicism not exempt from sentimentality.

This lets him have it both ways. He can undercut much of the flummery surrounding Lord's (with a touch of yellowplush when it comes to emphasising aristocratic rowdiness at the Eton-Harrow match in the late nineteenth century), while wiping a gentle tear from his eye as he perambulates the much-loved ground.

Mr Lewis's touch is less sure. His book is well-researched, with some handsome illustrations taken from the Lord's collection (although not, perhaps, from the Colman bequest). As a former England captain who has sat on a variety of MCC committees, he is an excellent guide to the recent happenings at Lord's, in which MCC members ("Some affecting knowledge, others sobriety", as Robertson-Glasgow once wrote of them) threw out their president's report, like a colonial lobby making a last protest at the loss of empire.

Perhaps it is the very excellence of his qualifications, and the fear of being thought too much an insider, a fancy hat, that makes Mr Lewis's approach appear ambivalent. He is by no means uncritical. He disapproves, for example, of the MCC's failure to accept change without being forced to—and much of his criticism is linked to the nineteenth century and echoes that of a supremely establishment figure like Pelham Warner. For the rest he sometimes suggests that he finds it is precisely the rottenness that lends the structure elasticity. And pietas, along with cricketspeak, will keep breaking through: "so cricket and W.G. [Grace] cemented as one, and grew into a solid pillar of all that was good." The pillar hardly looks so solid today.

*Hodder & Stoughton, £14.95; **Pavilion, £16.95; †Faber & Faber, £9.95.

1985—pass across the scene, in which the IRA is often a participant, sometimes a pretext, rarely a prime mover. Insurrectionists, however clear their ultimate aim, spend most of their time reacting to the initiatives and blunders of their chosen enemies. What they do is an adventure story; but the reader is not told why they did it, or whether the results were as intended. Fair enough; it is much too early to write the history that those squalid Irish times will one day deserve.

Futurology

Gloom and doom

APOCALYPSE 2000. By Peter Jay and Michael Stewart. Sidgwick & Jackson. 253 pages. £12.95

Whoever Murphy was, "Apocalypse 2000" should be dedicated to him. His law—"whatever can go wrong will go wrong"—permeates a history of the future written by Peter Jay and Michael Stewart. Every foreboding that the unblinkered observer of current affairs must admit to is extrapolated remorselessly into the next century. Free trade and economies collapse. Stock indices crash. Super-debtors default. Xenophobia becomes virulent in Europe and America. India's religious tensions rend the country. Japan turns inward and odder. Europe and America are divorced. A nuclear reactor on the French-German border goes the way of Chernobyl. Mrs Aquino is deposed in the Philippines. AIDS, drugs and Shi'ite fundamentalism do their stuff.

Anything this gloomy has to be fun to be worth reading. "Apocalypse 2000" offers little more fun than the OECD Economic Outlook. Rather than go all the way and write a fantasy in the style of Paul Erdman, the authors have opted for a bloodless style in which unidentified presidents and prime ministers act out the charades that clever world-weary men might expect of them. These charades are skilfully constructed: nobody can doubt that Mr Jay, a former British ambassador in Washington, and Mr Stewart, a former economic adviser at the British Treasury, have seen it all before. They probably chose the scholarly approach because fiction would not have allowed them to explain, in withering fashion, the tramlines of misguided logic into which their anonymous statesmen would be locked.

But in real life those tramlines are blown up at frequent intervals by events that have nothing to do with ideologies, or political systems, or prevailing economic beliefs, and everything to do with the oddness of people. What history of the future would have predicted that President Reagan would cripple his own influence by selling arms to



A fourth Reich?

America's bogeymen in Iran? What publisher would not have groaned inwardly when he read a prediction that a Democratic challenger for the presidency would blow his chances with a pretty girl in a boat called *Monkey Business*? However well argued, a history without real people quickly palls.

There is only one real person in "Apocalypse 2000" and he is a Euro-demagogue under the thin alias of Le Rith. Preaching full employment in a united Europe heavily defended against Americans, Russians, imports and immigrants, Le Rith hijacks the European parliament. With the help of a lot of unpleasantness in the streets, he wins supremacy for the European parliament over the national ones, and passes the laws that turn Europe into a fourth Reich. Who is to say that this is impossible? What is clear is that this Le Rith will be a really remarkable chap if he can harness economic misery to pull Europe's proud and prickly countries together. Every instinct suggests that such misery would actually compound itself by tearing Europe apart; and much of the rest of the book is about behaviour in that direction.

Works of futurology can be gripping. The ones that convince piece together things that are observable but often unobserved today, and tell the reader what surprises, good and bad, they will lead to tomorrow. The surprises ring true as soon as they are described. Some are hopeful, some worrying. They are about how the world will change rather than about how events in it will unfold.

It may sound complacent to say that the Jay/Stewart extrapolation of every present danger is numbing rather than enlighten-

ing. It is not. Think back to all those dangers that postwar history has skirted: the atomic war that did not happen; the information technology that worked against state control more than for it; the environment that began to get unpolluted again; the oil price and consumption that reacted miraculously to market forces; the unemployment that did not lead to the collapse of democracy; the debt crisis that was contained. The authors would have done more to help the world economy clear the next hurdle or two by offering a work of either lightish entertainment or heavyish prescription.

Monks

A quiet life

THE FRONTIERS OF PARADISE. By Peter Levi. Collins Harvill. 224 pages. £12

In the swinging 1960s, monks were an endangered species, along with wild yaks, golden parakeets and ocelots. Even on Mount Athos, a stronghold of the Christian monastic tradition, only about 1,000 were left, many in their dotage. Yet today Mount Athos has some 2,800 monks, a number that is rising fast, and the religions that produce contemplative holy men and women are growing almost everywhere except in much of Western Europe.

Why, in a materialistic and sceptical age, do so many people choose to be celibate and to devote this life to contemplating the next? Peter Levi, a professor of poetry at Oxford University who was for 28 years a Jesuit, explores rather than answers the question in a learned, lucid and often witty



Searching for order

BOOKS AND ARTS

account of the monastic tradition, eastern and western, over the past 3,000 years.

Some monks opt for a simple rather than a spartan life, like those at the monastery at Notre-Dame du Bec in Normandy, where Mr Robert Runcie, the archbishop of Canterbury, and James, his son, recently spent a retreat with 30 white-cowled monks who lead lives of poverty, chastity and obedience in accordance with the "Rule of the Master" written by St Benedict in the sixth century. Typical fare, James reported, was stuffed tomatoes, pork and spiced rice followed by almond pies, orange curd tarts and local cheeses, with calvados to help the digestion.

This rates several Michelin rosettes when measured against the more austere orders. Even the Carthusians, among the most austere of all, have become less strict as Mr Levi points out when looking at a Carthusian community in England, buried in rural Sussex. Pope Pius XII made its monks go for walks in pairs and converse one afternoon a week. They said at the time that it was their greatest penance. Communal cooking was the rule—they used to prepare their rations alone, but the prior complained that in practice that meant some of them ate raw food and others spent all day

inventing the perfect way to cook a potato.

Nonetheless, it remains a life of denial of the family ties, material comforts and personal liberties that the rest of humanity strives for. The nearest Mr Levi can come to explaining its satisfactions is in paradoxes. By embracing a personal poverty which is close to being absolute, the monk enters a world where he is richer than his cousins. By seeking peace and humility, he enters an enclosed, protected place where his life is less troubled than other lives. By accepting death, he may even contrive to live longer than the rest of his earthly family (the longevity of the average holy man is remarkable). By engaging in the discipline of obedience, he frees himself from many worldly obligations and becomes almost invulnerable to earthly power.

None of this properly explains the revival of interest in what remains in many ways a medieval style of life. Perhaps a novelist, Martin Amis, unconsciously came nearer to providing the answer in a recent interview with the *Guardian*. As a controlling force in human affairs, he said, "motivation is pretty well shagged out by now." As Mr Amis sees it, money is not enough motivation; it is a conspiracy everybody goes along with. Monks would agree.



Mr Zapp with "Continuity"

meal, albeit extensive, art collecting—and give it a modern bias. The board approved and Mr Zapp, with the help of outside experts, scrutinised some 5,000 works before settling on 1,520. They were bought from 94 galleries (none direct from the artists) for just over DM2m (currently \$1.1m). Not included in that total are works by modern German masters like Nolde and Kirchner which adorn the executive board's floors. Even so it looks as though Mr Zapp acquired some bargains, in an age when modern German art is arousing ever greater international interest (and higher prices).

Mr Zapp is a keen collector of modern art, but he was under no illusions that all Deutsche Bank employees would welcome a mass of modern art taking over the office walls. Nor were they. There were many groans and tart notes to Mr Zapp, but the resistance now seems to have faded. A big get-together was arranged last year at the bank with many of the featured artists, an art library has been set up and a 300-page catalogue of the pictures at headquarters is selling well to employees at DM10 a time. The bank's branches at home and abroad are catching the modern-art habit too.

The pity is that this collection is seen few outsiders, but the Deutsche can hardly throw open the towers to all and sundry and still get on with business. At least there is one major work on general display all the time: a massive granite monolith by a Swiss sculptor, Max Bill, and one of Mr Zapp's biggest challenges. Planned back in 1981, carved from a 200-tonne slab of granite in Sardinia, brought by sea to Rotterdam and river to Frankfurt, the sculpture was hauled through the streets to be eased on to the plaza in front of "credit and debit" last October. Some people at the Deutsche would have liked the work—called "Continuity"—to have been even bigger. But that would have meant dismantling the overhead power lines for Frankfurt's trams, an organisational problem too knotty even for Mr Zapp.

ARTS

Banking on art

FRANKFURT

Head for Deutsche Bank's headquarters in Frankfurt to see one of the best collections of German modern art

Visitors to the Deutsche's headquarters in Frankfurt, two crystal towers nicknamed "credit and debit", may well wonder if it is a bank or a modern-art gallery. Every floor is clearly marked against the buttons in the high-speed lifts, but by artists' names, not bank departments. Bewildered seekers of finance peer at levels marked Joseph Beuys, Blinky Palermo or even the *Neue Wilde*.

The Deutsche, West Germany's biggest bank, moved its headquarters to the twin towers in early 1985 after nearby premises became too cramped for its 1,700-plus staff. It gave them the chance to put together what is probably the most comprehensive collection anywhere of German postwar art. Displayed on nearly 60 floors are 1,520 works by 120 artists, half of them born since 1945.

At first glance it is hard to see a pattern in the arrangement. True, 20 works by Joseph Beuys, the most celebrated artist featured, are given pride of place on the top floor of the "debit" tower, but what of the levels below? The answer is the older artists have the highest levels, from Erwin Heerich

(born in 1922) just under Beuys, to Gunter Rambow (born 1958) 31 floors further down. An art fan with plenty of staying power who starts at the top and works down both towers can see German art (or, more precisely, art from German-speaking countries) of the past 40 years unfolding chronologically. Even allowing a paltry ten minutes per floor, the viewing would take the best part of ten hours.

The pattern is broken on the third floor, a much broader level which connects the two towers, but here too there is a strategy. All the artists featured come from Berlin, Germany's biggest city in population and area and maybe (though the Deutsche does not mention this point) one day again the capital of a united country.

The man who planned all this is Mr Herbert Zapp, a member of the managing board whose (other) responsibilities include looking after the bank's company customers and its venture-capital activities. He reckoned back in 1982 that the impending move to the twin towers gave the Deutsche a unique chance to plan its hitherto piece-

APPOINTMENTS

TROPICAL AGRICULTURE MANAGEMENT

A young

Agricultural graduate

is sought for a management position on tea and coffee estates situated in the highlands of Papua New Guinea.

The successful applicant must have good leadership qualities, and be able to adjust to the problems of working in a remote environment. Mechanical aptitude would be considered an advantage.

Applications giving details of qualifications, experience, and other relevant information together with names and addresses of three referees should be sent to:

PO Box 94
Mount Hagen
Papua New Guinea

UNIVERSITY COLLEGE OF THE NORTHERN TERRITORY

Lecturer/Senior Lecturer in Economics (2 POSITIONS)

Applications are invited for the position of Lecturer/Senior Lecturer in Economics. Preference will be given to holders of a Ph.D. degree and to those whose research interests are relevant to the Northern Territory, south-east Asia or Melanesia. The College encourages interaction with other disciplines.

Tertiary teaching experience would be an advantage.

Successful applicants would possess the ability to teach in the areas of:

1. - introductory Political Economy and Institutional Economics
- intermediate Micro and Macro-economic Policy
- at least one of Public finance, Regional/Urban/Transport Economics Labour Economics, Economic Theory, at an advanced level
- An interest in the Economics of Tourism would be an advantage
2. - introductory and intermediate Econometrics
- Advanced Economic Theory

Salary: Lecturer A\$28 381 - A\$37 122

Senior Lecturer A\$37 903 - A\$44 090, according to qualifications and experience, plus District Allowance (without dependants A\$1 277 per annum, with dependants A\$2 237 per annum).

Further information and application forms are available from: The Registrar, University College of the Northern Territory, GPO Box 1341, Darwin NT Australia, 5794.

Applications should reach the Registrar by July 17th 1987.

SENIOR FINANCIAL WRITERS

Euromoney Publications seeks a highly motivated senior editor. Knowledge of international financial markets and/or writing experience will be valuable.

Please reply with cv to Richard Ensor, Director, Euromoney Publications Plc, Nestor House, Playhouse Yard, London EC4V 5EX.

CHIEF EXECUTIVE'S DEPARTMENT

SENIOR POLICY PLANNER (EUROPEAN LIAISON OFFICER)

Salary range £13,506-£14,789pa

This post provides the opportunity to be involved in several key policy areas, particularly those concerning the identification and attraction of external funds from UK and international sources, liaison with a range of European institutions, especially the European Commission, and also the development, monitoring and co-ordination of the County Council's capital programme.

The County Council has a positive policy towards economic regeneration and social development and is pursuing a number of major and innovative schemes. This post exercises a central role in identifying, evaluating, co-ordinating and monitoring these projects. Maximising the benefits of external support to assist these initiatives is a challenging task. The County Council has developed a wide range of relationships of an economic and cultural nature throughout Europe and the successful candidate would be expected to maintain and develop these to the Council's corporate benefit.

We are looking for a graduate with experience in project development work at a senior level, experience in European affairs and working knowledge of one of the main European foreign languages would be an advantage.

Application forms and further details of the post can be obtained from the County Personnel Officer, Shire Hall, Mold, Clwyd CH7 6NR. Telephone Mold (0352) 2121, ext 2435. To be returned by 13 July 1987.

J. A. Davies
County Personnel Officer

CLWYD

COUNTY COUNCIL

SHIPPING MANAGER

Korean speaking Shipping Manager urgently required for international freight forwarders to open up exciting new export territories in S. Korea.

Minimum five years experience in shipping. Must be fluent in Korean language. Strong Korean connections are vital for this post.

Address: Mr J. P. Hassan, W T Shipping Group Ltd, Tonbridge Road, Harold Hill, Romford, Essex RM3 8XJ, UK.

APPOINTMENTS

REPUBLIC OF THE MARSHALL ISLANDS

Applications are invited for the following position in Majuro, Marshall Islands:

NATIONAL STATISTICIAN

QUALIFICATIONS: A degree in Statistics with knowledge in Economics and at least ten years experience as a Statistician in a small developing country. Good knowledge of English and experience in computerisation required. Those with postgraduate qualifications will be preferred.

DUTIES: The division of Statistics under Office of Planning is quite small and in a formative stage. Selected candidate will be the first National Statistician and will be expected to organise and develop the division and its work programme. Initial responsibilities will include implementation of the National Statistical Act, conducting a population census and compilation of statistical data needed for development plan formulation and monitoring.

SALARY AND BENEFITS: Contract will be for two years on a salary of US\$28,000 per annum plus housing allowance, travel to and from place of employment.

Please send your application to reach the Chairman, Public Service Commission, PO Box 90, Majuro, Marshall Islands 96960, before 15 July 1987.

The University of Melbourne

LECTURER (CONTINUING)

Department of Economic History

Applications are invited for a continuing Lectureship in the Department of Economic History to commence as soon as possible after 1 January 1988.

The Department of Economic History is located within the Faculty of Economics and Commerce but is also a member of the Faculty of Arts. The appointee will be expected to teach in the first-year subject, Australian Economy and Society, as well as in one or more of the following areas: American economic history, the history of economic thought, labour history, and Western European economic history.

Further information may be obtained from the Chairman of Department, Dr P. L. Robertson, (03) 344 5340.

Salary is in the range: A\$28,381-\$37,122 per annum (Lecturer).

Further printed information regarding details of application procedure and condition of appointment is available from Ms P. Sugarman on (03) 344 7546, or from the Association of Commonwealth Universities (Apts), 36 Gordon Square, London WC1H 0PF.

Applications, in duplicate, including names and addresses of at least three referees and quoting position number 326 0100, should be addressed to The Director, Personnel Services, The University of Melbourne, Parkville 3052, Victoria, Australia, and close on 20 July 1987.

Equal opportunities in employment is the policy of The University of Melbourne.

Improving performance through purchasing research

British Airways are recognised as being a leader among the world's top airlines. Indeed the sheer scope of our operations can be judged from the fact that our purchasing team have an annual budget of over £1 billion for the purchase of goods and services worldwide.

Our purchasing policy exerts considerable influence upon our profitability. Forward planning, in terms of purchasing research, has a similar impact on our continued growth and future prosperity.

Senior Business Analyst

An ambitious professional with a business related or economics degree, and preferably an MBA, you will lead a small team of business analysts. Together you will prepare key economic assumptions relating to the price of goods and services. You should have experience within a professional purchasing operation, either as buyer or analyst, because we will expect you to provide specialist cost analysis, participate in major negotiations and, on an on-going basis, analyse our purchasing activities and systems to identify opportunities for improvement. Ref. MA/208/13

Business Analyst

Reporting to the Senior Business Analyst, you should have a relevant business degree and appropriate industrial experience which will enable you to participate in all the activities of the Purchasing Research Group. This should have generated a knowledge of business systems, computerised management reporting/modelling and forecasting. Ref. MA/208/14

In both cases we would expect you to be at least 25 and to have a minimum of 2-3 years' business experience - probably more in the case of the senior appointment. And for bright, energetic individuals who can combine strong analytical and presentation skills with technical expertise and a flair for teamwork, career prospects are excellent.

We can offer an attractive rewards package which includes profit sharing, holiday bonus, excellent sports and social club facilities and favourable holiday travel opportunities.

Please write with a full c.v., quoting the appropriate reference number and indicating present salary, to Recruitment & Selection, British Airways Plc., "Meadowbank", P.O. Box 59, Hounslow TW5 9QX. Closing date for received applications 17th July, 1987.

BRITISH AIRWAYS

The world's favourite airline.

APPOINTMENTS

Philip Morris is a leading international company with a reputation built on quality consumer products, innovative marketing and excellent financial results.

The Philip Morris Regional Headquarters located in Lausanne-Switzerland, covers the cigarettes business for Switzerland, Eastern Europe, the Middle East, and Africa. Our Planning Department supports and promotes the formulation of our regional business strategies in undertaking ad hoc business studies for key markets, driving the long-term planning cycle and following up on implementation.

We are now offering to a young talented professional the position of

ECONOMIC ANALYST

You will be responsible for assessing market dynamics in terms of segmentation, pricing, and competitive activities within a dynamic business environment, working closely with Planning, Marketing, Finance and Field Functions. You will develop econometric models for market and product analysis, and will be expected to advise on short and long term changes affecting the business and propose appropriate strategies and action plans.

Candidates should have a degree in economics, with a knowledge of econometrics, statistics, or related subjects. At least 2 years experience in a FMCG environment is preferred, together with strong analytical and communication skills and an interest in marketing. An MBA would be desirable but it is not essential.

Interested applicants are invited to write with full career details to Mr Jean-Marc Mommer, Manager Recruitment and Compensation and Benefits at the following address:

PHILIP MORRIS
EFTA, EASTERN EUROPE,
THE MIDDLE EAST
AND AFRICA REGION
Avenue de Cour 107, 1001 Lausanne, Switzerland.



BBC CZECHOSLOVAK SERVICE

The Czech and Slovak production teams have full and part-time vacancies for Programme Assistants in London. Interested applicants must have Czech or Slovak as their own or best language, a suitable radio voice, ability to translate quickly and accurately from English and skill in original writing. You should be able after training to interview in your own language and compile programmes. We also look for up-to-date knowledge of the political, economic and social conditions in the country receiving your language broadcasts, typing skills (or willingness to learn). Education to degree level or journalistic experience an advantage. Full time contracts are for 4½ years.

Write for further details within 14 days to **Recruitment Office, BBC, P.O. Box 76, Strand, London WC2B 4PH, England** quoting ref. 3636/EC and enclose a self-addressed envelope for reply.

BBC

EXTERNAL SERVICES

We are an equal opportunities employer

COURSES

International Consultants in Management (Europe)

(All Associates are members of MCE Faculty)
announce its first international seminar on

TOTAL QUALITY MANAGEMENT

Five days residential seminar September 7-11, 1987, in Namur (Belgium).

Programme:

- ★ Quality and Competitive Edge
- ★ Defining Quality and Quality Ethics
- ★ Quality in your Company
- ★ The TQM programme
- ★ The Total Quality Manager.

Write to: ICM (Europe), 19 rue Cdt. Ponthier, 1040 Brussels, Belgium.



Match your position with a legal degree and transcripts

As you know experience is still the best teacher. But Degrees open doors.

UNIVERSITY DEGREE

For Life, Academic & Work Experience
Degrees for people who want to be more effective and secure in their Jobs or Professions.

Earn a BACHELOR'S MASTER'S or DOCTORATE Degree by utilizing your life and work experience. College equivalent credits are given for your job, military, company training, industrial courses, seminars on business experiences. We accept college credits no matter when taken. No residency required.

Our graduates are recognized for their achievements in business and industry. We will assist you in completing your degree requirements without formal classes or seminars at your own pace and time.

Send detailed résumé on work life and academic experience for a no cost evaluation.

PACIFIC WESTERN UNIVERSITY

600 N Sepulveda Blvd, Los Angeles, California 90049—Dept 137—USA

Speak FRENCH

(or German, Spanish, Arabic and others)

Like A diplomat!

What sort of people need to learn a foreign language as quickly and effectively as possible? Foreign service personnel, that's who. You can learn the same way with the course designed by the Foreign Service Institute (FSI) for use by U.S. State Department personnel stationed abroad, THE FSI BASIC FRENCH COURSE.

The basic French Course consists of a set of audio cassettes and accompanying text books: you simply follow the written and recorded instructions. With the FSI's unique learning method you set your own pace — testing yourself, correcting errors, and reinforcing accurate responses. It is, we believe, the best course available to teach you a comprehensive knowledge of French.

The FSI's introductory Basic French comes in two parts. Part A provides an introduction to the simpler forms of the language and a basic vocabulary. Part B introduces more complex structures and additional vocabulary.

You may order one or both courses.

Unconditional Guarantee —

Try the course for three weeks. If you are not convinced it's the fastest, easiest, most painless way to learn French, return it and we will refund every penny you paid.

TO ORDER, JUST CLIP THIS AD and mail it with your name and address and a cheque or money order. Or, charge it to your credit card (American Express, VISA, Access, Diners Club) by enclosing card number, expiration date, and your signature.

- ☐ **Basic French, Part A.** 12 cassettes (15 hr). 194-page text. £99.50 (or \$150 US).
- ☐ **Basic French, Part B.** 18 cassettes (25 hr). 290-page text. £119.50 (or \$175 US).

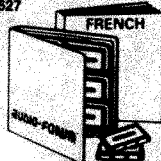
All prices are inclusive.
For shipment outside Europe, please include £10 (or \$15 US) additional postage.

Many other FSI language courses also available. Write to us for free catalogue.

AUDIO-FORUM

Audio-Forum, Suite 627
31 Kensington Church Street,
London W8 4LL.
(01) 937 1647.

Audio-Forum,
Suite 627,
On The Green
Guilford
CT 06437
USA (203) 453 9794



BUSINESS DEGREES in MANAGEMENT and MARKETING

Graduate and undergraduate courses

- courses in small groups ● each student followed-up individually ● a business-experienced academic team ● accelerated progress by means of summer semesters

Career oriented undergraduate and graduate programs in business administration, information systems, international management, hotel management, communications, public relations and European languages.

European University

THE CAREER BUILDERS



For information and application contact the Registrar:

BELGIUM

ANTWERP:
Amerikalei 131,
B-2000 Antwerp
Tel.: (+32)3/238.10.82 and
(+32)3/218.81.82
Courses in Dutch or English

BRUSSELS

Rue de Livourne 115-120,
B-1050 Brussels
Tel.: (+32)2/648.67.81 and
(+32)2/648.68.65
Courses in French or English

FRANCE

PARIS (Versailles):
Rue des Chéniers 35,
78000 Versailles
Tel.: (+33)1/30.52.95.54
Courses in French or English

SWITZERLAND

MONTREUX:
Grand Rue 42, CH-1820 Montreux
Tel.: (+41)21/763.11.67
Courses in French or English

The European University is a member of the American Assembly of Collegiate Schools of Business.

JOB opportunities worldwide with an MBA

Theoretical and practical programs for international business executives in multi-national corporations, banking, import-export, investments etc. at Schiller International University.

- * Full-time and evening programs
- * Admission with Bachelor degree in Business Administration, Economics, Accounting.
- * Location at Waterloo, central London
- * Also offered in Paris and Heidelberg
- * Language of instruction — English

Accredited by the Association of Independent Colleges & Schools, Washington DC., USA to award Associate, Bachelor and Master degrees in Business Administration, Hotel Management and many other fields.

SCHILLER INTERNATIONAL UNIVERSITY

Dept D3, 51/55 Waterloo Road, London SE1 8TX
Tel: (01)-928 8484 Telex: 8812438 SCOL G



CITY OF LONDON POLYTECHNIC

MSc. and Postgraduate Diploma in

Decision Making

Part-time (Wednesday afternoon and evening and Thursday evening over two years)

This innovative course brings together the practical and academic sides of decision making. Current students are drawn from both public and private sectors, and some are sponsored by their employers.

The course covers:

- ★ Individual decision making
- ★ Management Science and decision aids
- ★ Interpersonal and group decision making
- ★ Social structuring of decision making
- ★ Practical area studies

Application forms from:

The Faculty Officer,
Faculty of Life and
Environmental Sciences,
City of London Polytechnic,
Old Castle Street,
London E1 7NT.
Tel. 01-283 1030

City Poly

We practise what we teach.

The vital ingredient in Urwick Management Centre courses is the business experience of our tutorial staff. They are practising Price Waterhouse consultants in their own right and so have up-to-date and practical experience of the everyday problems encountered by management.

We aim to match our services to the needs of our clients. Our courses are not based on theory but, where it is appropriate, the most up-to-date techniques are taught.

Much of our work is concerned with designing and implementing management training activities within companies. This is particularly effective since training can be focused on the company and its individuals' real needs.

Our credentials? Formed 37 years ago, the Urwick Management Centre has an international reputation for management development and training.

If your company is interested in training that is about business practice rather than academic theory, we invite you to ask for the Urwick Management Centre brochure. It contains full details of our training expertise and our wide range of public courses in Management Development, Selling and Communication Skills and courses specially designed for the construction industry.

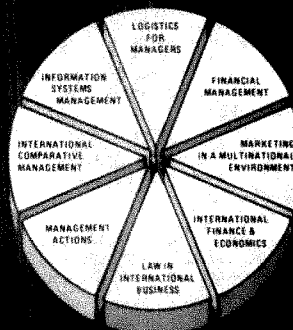
Just phone Ruth Drahota on 0753 34111 or write to her at Urwick Management Centre, Baylis House, Stoke Poges Lane, Slough SL1 3PF, Berks, England and she will rush you a copy.

Price Waterhouse



URWICK MANAGEMENT CENTRE

MANAGERS ONLY...



MBA MASTER'S DEGREE 8 CERTIFICATE PROGRAM

PSU offers a condensed version of an MBA and a DBA for business persons with experience. You may already have credits that can be transferred toward the completion of this degree program. We do not want to teach you what you already know.

If you are in a hurry for advancement and degree because of your demanding career, send a short resume including a list of the graduate courses you have completed, as well as a professional profile.

You may qualify and be selected for our program—held on a university campus near London in three-week summer sessions. (Visitor's Visa will get you there.)

THIS SUMMER SESSION July - August

Inquiries:

Pacific States University
34, Elizabeth Road
Walsall
West Midlands
WS5 3PF England
Telephone:
011 44922647944



SINCE 1928

HOME STUDY COURSE in economics. A 10-lesson study that will throw light on today's baffling problems. Tuition free—small charge for materials. Write Henry George Institute, 5 E 44th St, New York, NY 10017, USA.

Taking the GMAT or GRE exams?

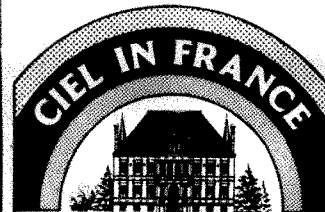
We CAN help

Write to:
Graduate Tutorials, GTAC Associates,
FREEPOST, London W5 4BR.
Tel: 01-993 3963

LEARN FRENCH

The intensive way and in real immersion. This means living in one of the most picturesque regions of France and really becoming fluent. Also vacation and learning plan. Cultural programme in Paris. Winter programme on the French Riviera. State age, goal level and time available.

The French and American Study Center, BP 176, LISIEUX 14104 Cedex—FRANCE. Tel: 31.31.22.01.



LEARN TO SPEAK FRENCH BY TOTAL NATURAL IMMERSION

with French participants for 7
intensive days in the DORDOGNE
Château LA VALOUZE

J. L. Lefevre CIEL.BP.180
24490 LA ROCHE CHALAIS, France
Tel: 53 91 44 28

STUDENTSHIP

University of Cambridge DEPARTMENT OF LAND ECONOMY MEPC RESEARCH STUDENTSHIP

Graduates with a good Honours degree, or those graduating this year, in Economics, Land Economy, Economic Geography, Law, Politics or other relevant subjects are invited to apply for the above, tenable for one year for an MPhil degree.

Further details from, and applications (by 20th July 1987) to:
Professor G. C. Cameron
Department of Land Economy
19 Silver Street,
CAMBRIDGE CB3 9EP

COURSES

Finance for Executives

11-23 October 1987
13-25 March 1988

Programme Director - Professor Herwig Langohr

The impact of finance on business performance is a key management issue.

FFE is a general management corporate finance programme.

Senior executives and functional managers will leave the programme with a clearer understanding of the role of finance in corporate strategy and in improved business performance.

The topics covered include:

The Finance function; Financial reporting; Working capital analysis and management; Financial analysis of investment decisions; Corporate strategy, financing and the value of the corporation; Foreign exchange risk management; Financial valuation of mergers and acquisitions.

For further information about this programme, please contact the programme co-ordinator:

Antonia Trevisan, Executive Education,
INSEAD, Room F,
F-77305 Fontainebleau Cedex, France.
Telephone: (1) 60 72 42 05 (direct line)
Telex: 690389F.

INSEAD

BUSINESS & PERSONAL

Readers are recommended to take the appropriate professional advice before entering into any binding commitment.

CAPITAL CVs prepare high quality curricula vitae. Tel: 01-607 7905 for details.

FREELANCE WRITER required for new Financial, Business, Money, Leisure Magazine. Send samples of work, rates etc to Mr J. Casey, 60 Earls Way, Chester, Cheshire.

SHIRTS FOR THE CONNOISSEUR. Made to measure and hand cut from fine fabrics. Details and free sample materials Seymours Shirts, Freeport, Dept 29, Bradford BD1 1BR.

AUTHORS invited to submit manuscripts, all types (including poems), for book publication. Reasonable terms. Stockwell, Dept 75, Ilfracombe, Devon (Est 1898). Tel: (0271) 62557.

5-ACRE SOUTH SEA ISLAND offers fabulous opportunity for two enthusiastic young couples to takeover, develop, upgrade and market existing 16-bed facility. Tourism booming this area. Ngarando-Faraway Resort, P.I.T. Private Bag, Honiara, Solomons.

STAYING IN LONDON? Take a luxury service apartment in St James's from only £65 (plus VAT) per night, for two. Every comfort. Exceptional value. Ryder Street Chambers, 3 Ryder Street, Duke Street, St James's, London SW1. Tel: 01-930 2241.

PANAMANIAN CORPORATIONS provide complete confidentiality and zero tax liability. We offer company formation services on a fast, reliable and competitive basis. H. I. Darlington, POB 1327, Panama 9a, Panama. Tel: 23-0834 or 23-4819 (evenings 23-6779).

HANDWRITING ANALYSIS. Long-established operation. Personnel assessment, vocational and marital guidance, forensic inquiries, etc. Illustrated lectures for conferences and colleges. Ask for new info package. John Wilcox. Telephone 0242 583543

AUTHORS WANTED BY
NEW YORK PUBLISHER

Leading book publisher seeks manuscripts of all types: fiction, non-fiction, poetry, scholarly and juvenile works, etc. New authors welcomed. For complete information, send for free booklet S-92, Vantage Press, 316 W. 34 St., New York 10011.

VISITORS TO LONDON

Self-catering studio flats, CH, HW, lifts, 24 hr porter. From £22 per week + cleaning fee £10.00. Minimum rental for two. Co lets available for longer term. Call for more than 4 weeks. Endgort, 24 Upper Woburn Place, WC1H 0BA. Telephone (New London) (212) 496-5890. COM. (2) Telex: 943753-CRO. C.K. Diners, Visa.

HANDWRITING ANALYSIS

Suspect Documents: Examiner of Forged/Anonymous writing.

Also Personnel/Character Assessment.

P. Lavell

9 Village Close, London NW3 5AH.
Tel: 01-794 6060.

CUT THE COST OF YOUR STAY IN LONDON

Take a furnished, self-contained service apartment in Knightsbridge, near Harrods. Fully equipped kitchen-dinette, bathroom, phone, colour TV, central heating, elevator. Suit 1-2 persons. Brochure by airmail.

Knightsbridge Service Apartments
45 Ennismore Gardens, LONDON SW7
Tel: 01-584 4123 Telex 261261 Globe G

OVERSEAS POSITIONS

Hundreds of top paying positions available now. Tax-free incomes. Many attractive benefits. Opportunities for all occupations, skilled trades, professionals, management, technical personnel etc. For free information about our publications, write:

Overseas Employment Services, Dept EC, PO Box 460, Town of Mount Royal, Quebec, Canada H3P 3C7.

INVESTORS...EARN 12-14 % RETURN

on secured 1st & 2nd mortgages
Call G. J. Hunziker (212) 645-1130

STOCKBRIDGE FUNDING CORP

130 W. 25 St., New York, NY 10001
Licensed N.Y.S. Mortgage Broker

ZURICH-ZURICH-ZURICH

BAHNHOFSTRASSE 52

YOUR OFFICE AWAY FROM HOME

- Office/Management Services
- Company Formations
- How to do business in/

FROM SWITZERLAND

Business Services Consult Corp
Bahnhofstrasse 52, CH-8002 Zurich

Tel: 01/211 92 07

Fax (1) 211 1922 Tlx: 813 062 BSIC

PEACE THROUGH THE MARKETPLACE

The Global Party seeks volunteers to globalist and peacemaking bent, to promote the World Peace Economic Coalition (global corporations, state enterprises, third world farmers).

PO Box 7623

Myrtle Beach, SC 29577 US

EDINBURGH TO LET

Edinburgh, Ann Street, finished Georgian terrace house, in quiet tree lined street, 34 bedrooms, 2 baths drawing room, dining room conservatory, garage and charming garden. Lease 1/2 years. £300 per week.
Telephone 01-332 2808

INTERNATIONAL PROPERTY

Gstaad Valley Switzerland

Residential Apartments

For Sale

Available directly from the Constructor

Plaza Constructions SA

Rue Du Rhone 100

CH-1204 GENEVA

Tel: (022) 21.60.44. Tlx: 421 121

Telefax: (022) 21.94.47

SWITZERLAND FOR FOREIGNERS

Lake Geneva, Lake Lugano, Gstaad Valley, Verbier, Villars, etc. Fine residential apartments, chalets, villas. Unique financing terms, confidential counselling. Daily visits.

GLOBE PLAN S A, established since 1970, 24 Av Mon-Repos, CH-1005 Lausanne, Switzerland. Telephone (21) 22 35 12. Telex 25 185 melia ch.

SWITZERLAND

Sale to foreigners authorized

Buy your STUDIO, APARTMENT or CHALET on LAKE GENEVA, MONTREUX or in one of these prestigious summer and winter ski resorts: CRANS-MONTANA, VERBIER, VILLARS, GRUYERES, CHATEAU-D'ŒX, region of Gstaad, LES DIABLETETS, LEYSIN, JURA, Thermal Center in the Rhone Valley, etc. From Str. 125'000.- 60% credit at 6 1/2% interest for 5/20 years.

REVAC S.A.

52, rue de Montbrillant
CH-1202 GENEVA

Tel. 41.22/341540
Telex 22030

ANNOUNCING A SPECIAL OPPORTUNITY FOR NON-U.S. RESIDENT INVESTORS: FIRST TRUST AMERICA FUND, L.P.

Your Chance to Invest in a Piece of America

Now you can put the power of the U.S. Government, along with mortgage-backed securities, in your investments with First Trust America Fund, L.P., a professionally managed, diversified mutual fund.

This fund is specifically designed for the non-resident foreign investor who wants the advantages of:

- U.S. Government and mortgage-backed securities
- Experienced portfolio management by FIRST BOSTON ASSET MANAGEMENT CORP.
- Current return and safety of principal
- Exemption from U.S. Federal income and withholding taxes
- Income paid monthly
- Opportunity to reinvest income (at net asset value without sales charge)

To find out if you qualify, ask your investment counselor, mail the coupon or call toll free:

1-800-621-4770
(In IL 1-800-325-9536)

Su oportunidad para invertir en los Estados Unidos

Ahora usted puede contar con el respaldo del gobierno de los EE.UU., y de valores con garantía hipotecaria por intermedio de First Trust America Fund, L.P., un fondo mutuo diversificado y administrado por profesionales.

Este fondo ha sido especialmente concebido para responder a los intereses de los inversionistas extranjeros que deseen aprovechar las siguientes ventajas:

- Valores con garantía hipotecaria avalada por el gobierno de los EE.UU.
- Gerencia de cartera a cargo de FIRST BOSTON ASSET MANAGEMENT CORP.
- Utilidades corrientes y seguridad del capital
- Exención del impuesto federal sobre la renta y del impuesto de retención en la fuente
- Pagos mensuales
- Oportunidad de reinvertir los ingresos (al valor neto del activo y sin comisión de venta)

Para averiguar si usted reúne las condiciones necesarias para efectuar estas inversiones, consulte a su asesor de inversiones, envíe este cupón por correo o llame sin cargo al número:

1-800-621-4770
(En Illinois:
1-800-325-9536)

L'occasion pour vous d'investir en Amérique

Vous pouvez à présent utiliser la puissance du gouvernement américain et des titres à garantie hypothécaire dans vos investissements grâce au First Trust America Fund, L.P., un fonds commun de placement diversifié et géré par des professionnels.

Ce fonds est spécialement conçu pour l'investisseur étranger qui ne réside pas aux États-Unis et qui souhaite bénéficier des avantages suivants:

- Titres du Trésor américain à garantie hypothécaire
- Gestion de portefeuille expérimentée par la FIRST BOSTON ASSET MANAGEMENT CORP.
- Rendement courant et sécurité du capital
- Exonération de l'impôt fédéral américain sur le revenu et de toute retenue à la source
- Revenu versé mensuellement
- Possibilité de réinvestissement du revenu (à la valeur nette de l'actif sans frais de vente)

Pour savoir si vous remplissez les conditions de l'offre, adressez-vous à votre conseil en investissements, renvoyez nous le coupon ci-joint ou appelez-nous au numéro d'appel gratuit ci-dessous:

1-800-621-4770
(dans l'Illinois, appelez le
1-800-325-9536)

Ihre Chance, in ein Stück Amerika zu investieren

Jetzt können Sie mit Ihren Kapitalanlagen auf die Stärke der US-Regierung und hypothekarische Sicherheit bauen — mit First Trust America Fund, L.P., einem professionell verwalteten, diversifizierten Rentenfonds.

Dieser Fonds wurde speziell für nicht in den USA ansässige ausländische Investoren konzipiert, für die folgende Vorteile ausschlaggebend sind:

- Anlage in hypothekengesicherten amerikanischen Regierungsanleihen
- Erfahrene Portefeuille-Verwaltung durch FIRST BOSTON ASSET MANAGEMENT CORP.
- Laufende Verzinsung und Sicherheit des eingesetzten Kapitals
- Einkünfte unterliegen weder der amerikanischen Quellensteuer noch der normalen US-Einkommensbesteuerung
- Monatliche Ausschüttungen
- Möglichkeit der Wiederanlage (zum Nettovermögenswert ohne Verkaufsgebühren)

Um festzustellen, ob Sie die notwendigen Voraussetzungen zur Zeichnung von Fondsanteilen erfüllen, wenden Sie sich bitte an Ihren Investmentberater, senden Sie den Kupon ein, oder rufen Sie folgende (in den USA) gebührenfreie Nummer an:

1-800-621-4770
(In Illinois 1-800-325-9536)

アメリカに 投資して みませんか

経験豊富なプロフェッショナルによって運営される投資信託（ミューチュアル・ファンド）ファースト・トラスト・アメリカ・ファンドに投資してアメリカ政府のパワーを利用して、不動産担保付債券をあなたのポートフォリオに取り入れてみませんか。

このファンドは米国に居住権をもたない外国人投資家のために特別にデザインされたもので、下記のような投資に興味のある方には理想的な投資信託です。

- 米国政府発行不動産担保付債券が投資対象
- 経験豊かなファースト・ボストン・アセット・マネージメント・コーポレーションがポートフォリオ・マネージャー
- 収益性が高く、元本安全
- 米国政府による所得税課税対象から除外
- 月ごとに支払われる利息
- 利息の再投資（純資産価額で手数料なしでできる）

資格その他のご質問はもとより、資料カウンセラーにお尋ねいただく、クーポン券をお送り下さい。また電話でのお問い合わせは、下記の電話番号をご利用下さい。

1-800-621-4770
(イリノイ州内: 1-800-325-9536)

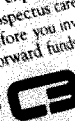
Please send me more complete information about First Trust America Fund, L.P., including a free prospectus listing all fees and expenses (Read the prospectus carefully before you invest or forward funds.)

Name _____
Address _____
City/Country/Code _____
Home Phone _____

Business Phone _____

EC2VFA62787

PERFORMANCE
BACKED BY
**KNOW
HOW**



CLAYTON BROCK ASSOCIATES, INC. Member SIPC

300 W. Washington, IL 60606
Chicago, Dallas, Los Angeles, New York

Shares of the Fund are exempt from U.S. federal gift taxes providing foreign investors meet certain requirements. The investment policy of the fund is to invest in securities issued or guaranteed by the U.S. Government or instrumentalities, including mortgage-backed securities and securities issued by private entities. Shares of the Fund are not insured. Of course, the market value of the Fund shares will fluctuate with changes in market conditions.

ECONOMIC AND FINANCIAL INDICATORS

1

OUTPUT, DEMAND AND JOBS West Germany's GNP fell by 0.8% in the first quarter; this was exactly what happened a year earlier; so the 12-month growth remained at 2.4%. In the 12 months to April, industrial production fell by 1.9% in France and 5.5% in Holland, but it rose by 1.5% in Britain and by 4.6% in Sweden. Britain's unemployment rate fell from 10.9% in April to 10.6% in May—its largest-ever monthly decline. In the same month, Sweden's jobless rate fell to 1.7%.

% change at annual rate

	industrial production		GNP/GDP		retail sales		unemployment % rate	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year	latest	year ago
Australia	+ 6.1	+11.2 (2)	+ 2.3	+ 2.3(3)	+ 3.6	+ 0.2 (9)	8.2 (5)	7.8
Belgium	- 0.9	+ 0.9 (1)	na	na	+ 3.4	+ 5.6 (2)†	11.7 (4)*	11.9
Canada	+ 9.6	+ 3.9 (3)	+ 0.2	+ 1.6(12)	+ 3.2	+ 3.7 (3)	9.1 (5)	9.6
France	+ 8.2	- 1.9 (4)	+ 4.2	+ 2.4 (6)††	-11.5	+ 0.7 (4)	11.1 (4)	10.4
W. Germany	- 0.8	- 1.3 (4)	- 3.1	+ 2.4 (3)	+ 9.6	+ 4.9 (4)	8.8 (5)	9.0
Holland	nil	- 5.5 (4)	nil	+ 2.0(12)	- 1.4	- 1.2 (3)†	14.0 (5)	14.8
Italy	+ 1.2	+ 4.1 (2)	- 0.1	+ 2.4(12)	+37.1	+ 9.5(11)†	14.6 (4)*	13.9
Japan	+ 3.2	+ 0.2 (4)	+ 3.0	+ 4.2 (3)	+ 6.7	+ 7.7 (2)	3.0 (4)	2.9
Spain	- 2.2	+ 9.2 (3)	na	na	+20.1	+11.4 (3)†	20.8 (5)	20.5
Sweden	- 1.2	+ 4.6 (4)	na	+ 1.5(12)	+20.5	+ 4.8 (3)†	1.7 (5)*	1.9
Switzerland	- 3.6	+ 2.8 (12)	+ 5.1	+ 3.1(12)	+ 8.1	+ 1.0 (2)†	0.8 (5)*	0.8
UK	+ 6.3	+ 1.5 (4)	+ 5.3	+ 3.3 (3)	+ 4.2	+ 1.5 (5)	10.6 (5)	11.5
USA	- 0.7	+ 2.2 (5)	+ 4.8	+ 2.3 (3)	+ 2.3	+ 1.8 (4)	6.3 (5)	7.3

†Value index deflated by CPI. †† 1986

PRICES AND WAGES America's 12-month rate of consumer-price inflation remained at 3.8% in May. In the same month, the inflation rate fell to 3.4% in France and to 5.8% in Spain, but Canada's rate rose to 4.6%. The 12-month growth in Britain's average earnings quickened to 7.8% in April; Italian wages rose by 5.9% in the year to March. In both Britain and Italy, pay is rising faster than consumer prices.

% change at annual rate

	consumer prices*		wholesale prices*		wages/earnings†	
	3 mths†	1 year	3 mths†	1 year	3 mths†	1 year
Australia	+ 8.0	+ 9.4 (2)	+ 7.5	+ 6.1 (2)	+ 7.6	+ 7.0(11)*
Belgium	+ 2.7	+ 1.7 (5)	+ 0.2	- 5.5 (1)	+15.8	+ 1.5(12)*
Canada	+ 5.3	+ 4.6 (5)	+ 2.0	+ 1.3 (4)	+ 2.7	+ 2.7 (3)*
France	+ 4.0	+ 3.4 (5)	+ 0.5	- 3.3(12)	+ 1.9	+ 3.2 (1)*
W. Germany	+ 1.7	+ 0.1 (5)	- 2.2	- 3.6 (4)	+ 5.7	+ 3.7 (4)*
Holland	+ 0.2	- 1.1 (5)	- 2.0	- 2.6 (4)	+ 1.3	+ 0.9 (4)
Italy	+ 5.9	+ 4.2 (5)	+ 6.2	+ 0.6 (3)	+ 6.9	+ 5.9 (3)*
Japan	+ 0.9	+ 0.1 (4)	- 2.0	- 5.3 (5)	+ 4.6	+ 2.1 (4)
Spain	+ 5.0	+ 5.8 (5)	+ 1.1	nil (3)	+ 3.6	+ 7.4 (4)
Sweden	+ 3.6	+ 3.4 (5)	+ 4.2	+ 2.2 (4)	+ 4.8	+ 2.7 (4)*
Switzerland	+ 3.7	+ 1.2 (4)	- 1.0	- 3.3 (4)	+ 3.2	+ 3.0(12)*
UK	+ 5.9	+ 4.1 (5)	+ 4.7	+ 3.5 (5)	+ 8.0	+ 7.8 (4)
USA	+ 5.6	+ 3.8 (5)	+ 4.7	+ 2.6 (5)	+ 3.4	+ 2.3 (5)

†Hourly wage rates in manufacturing except Australia, weekly earnings; Japan, and Switzerland, monthly earnings; Belgium, Canada, Sweden and USA, hourly earnings; UK, monthly earnings for all employees.

THE ECONOMIST COMMODITY PRICE INDEX

Silver fell in the wake of gold this week. It slipped below \$7 an ounce, thanks to a firmer dollar and the continuing bull run on Wall Street. Although silver is mainly an industrial metal (70% of its supply goes into industrial usage, against 15% of gold), it has reasserted its status as a precious metal this year. By mid-1986, the price ratio between gold and silver was at a postwar peak of 76:1, but by May, when silver traded at over \$9 an ounce, it had narrowed to 50:1. However, the persistent surplus of silver makes it more vulnerable than gold: the ratio is now 65:1.

1980=100

	June 16	June 23 (provisional)	% change on one month	% change on one year
--	---------	-----------------------	-----------------------	----------------------

Dollar index

All items	89.6	86.7	nil	+12.4
Food	87.5	83.8	- 3.4	- 1.4
Industrials				
All	88.1	86.1	+ 3.1	+24.8
Nfa†	102.0	99.9	+ 1.6	+33.4
Metals	78.4	76.5	+ 4.2	+18.9

Sterling index

All items	127.4	126.0	+ 2.1	+ 6.6
Food	124.3	121.7	- 1.2	- 6.5
Industrials				
All	125.2	125.1	+ 5.4	+18.4
Nfa†	145.0	145.1	+ 3.9	+26.5
Metals	111.4	111.2	+ 6.6	+12.8

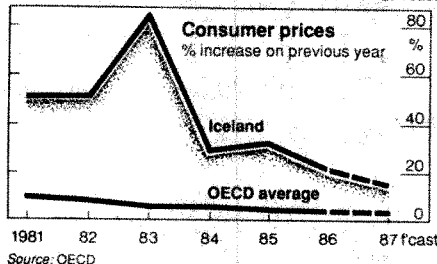
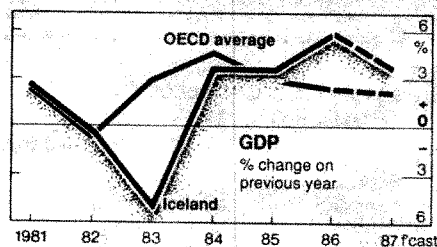
SDR index

All items	90.5	88.7	+ 1.7	+ 3.1
Food	88.3	85.6	- 1.6	- 9.6
Industrials				
All	89.0	88.0	+ 5.0	+14.5
Nfa†	103.1	102.1	+ 3.4	+22.3
Metals	79.2	78.2	+ 6.1	+ 9.1

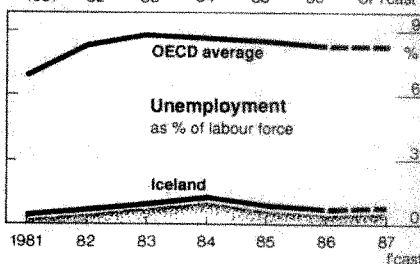
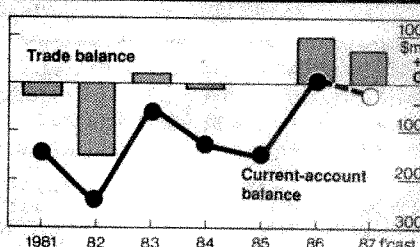
Gold				
\$ per oz	452.75	440.25	- 2.9	+28.3
Crude oil North Sea Brent				
\$ per barrel	18.85	18.87	+ 1.1	+67.0

†Non-food agriculturals.

FOCUS: ICELAND Iceland is the world's smallest economy; its GDP is less than 0.1% of America's. During the past couple of years, its economy has recovered strongly from the 1983 recession, when a sharp decline in its fish catch and an adverse swing in its terms of trade caused GDP to fall by 5% and inflation to soar to more than 100%. In 1986, GDP rose by 5.0% and the OECD is forecasting a rise of 3½% in 1987. Inflation is expected to slow to 14½% this year. Iceland's current account moved into surplus last year for the first time since 1978, but another deficit is expected in 1987. Iceland's unemployment has doubled since 1981, to 0.7% of its workforce—the lowest jobless rate in the OECD.

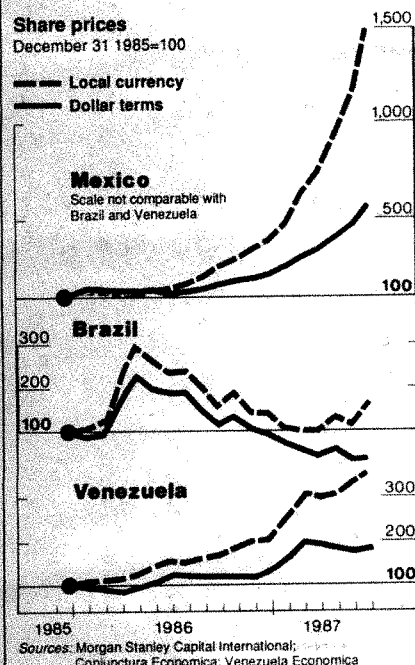


Source: OECD



Footnotes applicable to all tables. All figures seasonally adjusted except where otherwise stated. *Not seas. adj. †Average of latest 3 months compared with average of previous 3 months, at annual rate. n.a. Not available. Small figures in brackets denote month of indicator.

FOCUS: STOCKMARKETS So far in 1987, Mexico has had the world's fastest-rising stockmarket: share prices have risen by 176% in dollar terms since the beginning of the year, following a rise of 106% in 1986. Investors in the Brazilian stockmarket have had much less joy. Last year's Cruzado Plan sent prices surging 125% in dollar terms during the first four months of 1986; since then, prices have tumbled by 83%. Brazilian investors cheered this month's austerity package, pushing prices up sharply in local-currency terms, but in dollar terms they hardly budged. The Venezuelan market has risen 85% in the past 18 months.



WORLD BOURSES In Tokyo, share prices fell 3.7% during the week as investors moved back into dollars. Fears of higher British inflation and the absence of foreign buyers pushed London 2.4% lower. Frankfurt was last week's favourite—up 6.0%.

Stock price indices	June 18	June 23	% Change on					
			1987 high	1987 low	one week	one year	record high	31/12/86 in local currency
Australia	1742.0	1858.8	1486.7	— 3.7	+ 44.5	— 6.3	+18.3	+ 27.3
Belgium	4741.1	4741.1	3987.9	+ 1.6	+ 29.7	nil	+15.8	+ 22.2
Canada	3691.0	3881.2	3067.8	— 0.2	+ 20.7	— 4.9	+20.4	+ 24.6
France	408.6	460.4	392.0	— 2.1	+ 17.9	—11.3	+ 2.7	+ 7.0
W. Germany	1914.7	2048.3	1633.8	+ 6.0	— 2.0	—16.0	— 6.4	— 1.8
Holland	303.2	303.6	257.7	+ 2.8	+ 4.9	— 0.1	+ 8.9	+ 15.6
Hongkong	3110.4	3178.6	2449.9	— 1.9	+ 76.3	— 2.1	+21.1	+ 20.8
Italy	709.2	767.3	673.6	— 1.4	+ 5.1	—21.9	— 1.9	— 0.8
Japan	24794.9	25929.4	18544.0	— 3.7	+ 43.0	— 4.4	+31.7	+ 42.8
Singapore	1249.2	1249.2	889.1	+ 2.1	+ 63.2	nil	+40.2	+ 43.0
South Africa	1889.0	1957.0	1423.0	— 0.5	+ 61.1	— 3.5	+33.4	+ 42.6
Spain	238.9	256.0	202.9	+ 4.6	+ 34.0	— 6.7	+14.7	+ 19.3
Sweden	2712.3*	2782.1	2111.4	+ 0.5	+ 12.8	— 2.5	+10.3	+ 16.4
Switzerland	613.1	613.1	564.5	+ 3.4	+ 9.4	— 1.0	+ 4.1	+ 10.6
UK	1751.6	1801.7	1320.2	— 2.4	+ 30.8	— 2.8	+33.3	+ 43.8
USA	2439.7	2445.5	1927.3	+ 1.3	+ 30.1	— 0.2	+28.7	+ 28.7

MONEY AND INTEREST RATES The 12-month rate of growth of both measures West Germany's money supply quickened in May: M1 rose by 9.9% and M3 by 8.4%. Australian banks cut their prime lending rates by half a percentage point.

	Money supply % rise on year ago		Interest rates % p.a. (Tuesday, except bonds which are previous Friday)		Commercial banks		Bond yields		Eurocurrency	
	Narrow (M1)	Broad†	Overnight	3 months	Prime lending	Deposits 3 months	Gov't long-term	Corporate 3 months	Deposits 3 months	Bonds
Australia	+15.3	+11.4 (4)	12.50	13.35	16.00	13.00	13.25	14.25	13.03	14.67
Belgium	+ 8.1	+11.4(12)	6.70	6.75	9.25	6.35	8.08	8.20	6.69	na
Canada	+18.0	+10.6 (5)	8.63	8.62	9.50	7.40	9.70	10.52	8.13	9.96
France	+ 2.0	+ 4.1 (3)	7.94	8.31	9.45	8.31	9.45	10.27	8.31	9.64
W. Germany	+ 9.9	+ 8.4 (5)	3.30	3.75	6.00	3.41	5.90	5.50	3.75	4.96
Holland	+ 6.8	+ 3.4 (3)	5.25	5.19	7.00	5.19	6.29	6.73	5.25	6.55
Italy	+ 9.7	+ 9.4 (1)	11.13	11.25	12.50	na	10.42	9.97	9.94	na
Japan	+10.4	+10.9 (4)	3.06	3.71	3.38	1.76	3.60	4.17	3.97	4.44
Spain	+13.3	+10.8 (3)	16.66	17.72	17.00	6.50	12.16	13.56	13.00	na
Sweden	na	+10.1 (4)	8.00	9.05	11.50	8.68	11.45	12.47	8.94	na
Switzerland	+ 6.1	+ 9.6 (3)	8.88	9.94	7.00	3.25	4.08	4.56	4.06	4.65
UK	+23.3	+20.5 (4)	8.05	9.13	10.00	9.06	9.27	10.20	9.13	10.14
USA	+14.2	+ 7.3 (5)	6.81	6.75	8.25	6.65	8.48	9.25	7.06	8.47

Other key rates in London 3-mth Treasury Bills 8.6%, 7-day interbank 9.1%, clearing banks' 7-day notice 3.3%. Eurodollar rates (Libor): 3 mths 7.1%, 6 mths 7.0%.

†M2 except Australia, Canada, W. Germany, Spain, Switzerland, UK, USA, M3, Japan M2 + CDs. Definitions of interest rates quoted available on request. Sources: Bank of Bilbao, Chase Manhattan, Chase Econometrics, Banque de Commerce (Belgium), Nederlandse Credietbank, Credit Lyonnais, Svenska Handelsbanken, ANZ Bank, Credit Suisse First Boston. These rates are indicative only and cannot be construed as offers by these banks.

TRADE, EXCHANGE RATES AND RESERVES The dollar's trade-weighted value gained another 0.7% during the week yen's fell 1.0%, the D-mark's was unchanged. The expected post-election "wall of foreign money" failed to materialise in London: sterling slipped below \$1.60 and its trade-weighted value fell 1.9%. France's visible-trade deficit rose to \$937m in May; its 12-month deficit widened to \$2.2 billion. Italy's trade deficit rose to \$1.1 billion in the year to April.

	trade balance‡ \$bn		current-account balance \$bn latest 12 mths	trade-weighted‡ exchange rate		currency units per \$		currency units			foreign reserves†† \$bn	
	latest month	latest 12 months		latest	year ago	latest	year ago	per £	per SDR	per ecu	April	year ago
Australia	— 0.15 (4)	— 1.7	— 8.6 (5)	56.6	58.1	1.40	1.47	2.23	1.78	1.58	8.4	6.6
Belgium	— 0.21 (3)	+ 0.3	+ 3.3(12)	99.8	95.2	38.0	45.5	60.8	48.7	43.0	6.9	5.1
Canada	+ 1.18 (4)	+ 8.1	— 6.5 (3)	77.0	78.7	1.33	1.39	2.13	1.69	1.50	5.3	2.6
France	— 0.94 (5)	— 2.2	+ 3.8(12)	71.3	69.1	6.12	7.08	9.79	7.84	6.92	31.8†	26.5†
W. Germany	+ 5.32 (4)	+ 60.1	+ 40.2 (4)	146.5	135.0	1.83	2.22	2.93	2.35	2.07	62.0	45.6
Holland	+ 0.60 (3)	+ 2.9	+ 6.7 (9)	134.7	125.0	2.06	2.50	3.30	2.62	2.33	13.1	11.2
Italy	— 1.48 (4)	— 1.1	+ 4.8(12)	47.2	46.2	1324	1523	2118	1685	1497	25.9	17.2
Japan	+ 8.24 (4)	+102.0	+ 93.8 (4)	219.1	206.4	146	167	234	187	165	68.5	31.3
Spain	— 0.90 (5)	— 11.0	+ 3.8 (4)	48.6	48.2	127	142	203	162	143	15.5**	12.5**
Sweden	+ 0.51 (5)	+ 4.5	+ 1.1(12)	68.2	67.6	6.40	7.18	10.20	8.15	7.22	8.2	6.6
Switzerland	— 0.50 (3)	— 3.6	+ 7.5(12)	172.0	159.9	1.52	1.82	2.43	1.93	1.72	19.7	16.2
UK	— 0.82 (4)	— 12.6	— 1.8 (4)	71.7	75.8	0.63	0.66	—	0.80	0.71	24.4	14.7
USA	—13.32 (4)*	—168.4	—145.5 (3)	102.6	115.5	—	—	1.60	1.27	1.13	35.5	35.4

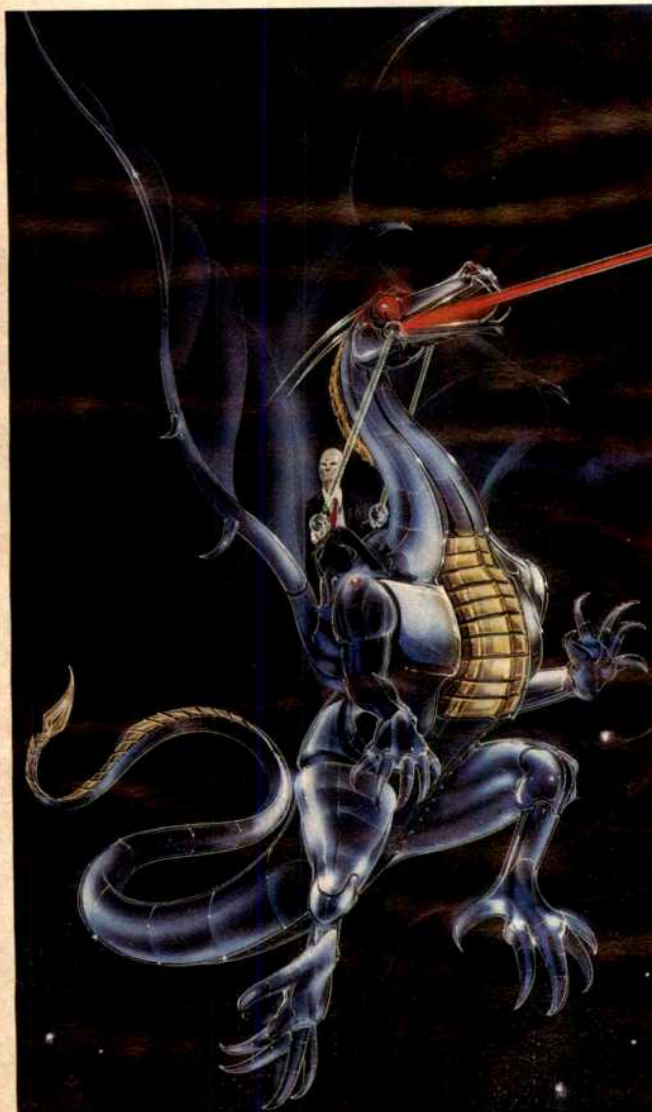
‡Australia, Canada, Japan, France and UK imports fob. All others cif/fob. †† Bank of England index 1975 = 100. † Excluding gold. * Not seasonally adjusted. ** February † March.



over 125 years J.P. Morgan has put its clients' interests first, in a context of absolute confidentiality and objectivity.

Gould introduces firebreathing supercomputer performance in a minicomputer package.

The NPL™ family: powerful, compatible, connectible.



The NP1, first of the NPL family, begins a whole new category of compatible Gould computers. It bridges the gap between giant supercomputers and superminis.

The Gould NPL family offers you the power and speed of supercomputers at the cost and size of superminis, and are every bit as easy to use.

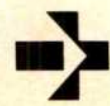
It combines super high speed and massive real memory for the most complex and sophisticated applications, yet is versatile enough to handle the most routine tasks. And because NPL systems feature the industry standard UNIX™ operating system, you get the benefit of a vast array of application software and language and the capability to easily program for your own needs.

Supercomputer power from the company with over 25 years of price performance leadership in the computer industry.

For immediate information write: Gould Inc., 10 Gould Center, Rolling Meadows, Illinois 60008 U.S.A.

Gould: the name to remember in information systems, industrial automation, test & measurement and materials and components.

UNIX is a registered trademark of AT&T Bell Labs.

 **GOULD**
Electronics